

Draft Red Herring Prospectus

Dated [●], 2005

*(The Draft Red Herring Prospectus will be updated upon filing with the RoC)**Please read Section 60B of the Companies Act, 1956***100% Book Built Issue****ROYAL ORCHID
HOTELS****ROYAL ORCHID HOTELS LIMITED**

Registered Office: Hotel Harsha, No.11, Park Road Bangalore 560 051;

Corporate Office: No.1, Golf Avenue, Adjoining KGA Golf Course, Airport Road, Bangalore 560 008

Tel: (91 80) 2558 4242 ; Fax: (91 80) 2558 7609;

Contact Person: Mr. G. Tirupathi Rao, Company Secretary and Compliance Officer; E-mail: gtrao@baljeehotels.com

Website: <http://www.royalorchidhotels.com>

(We were incorporated as Universal Resorts Limited, a public limited company under the Companies Act, 1956 on January 3, 1986.

On April 10, 1997, our name was changed to Royal Orchid Hotels Limited.)

PUBLIC ISSUE OF 6,820,000 EQUITY SHARES OF RS. 10 EACH FOR CASH AT A PRICE OF RS. [●] PER EQUITY SHARE AGGREGATING RS. [●] MILLION BY ROYAL ORCHID HOTELS LIMITED (“THE COMPANY” OR “ISSUER”) (THE “ISSUE”). THE ISSUE WOULD CONSTITUTE 25.04% OF THE FULLY DILUTED POST ISSUE PAID-UP CAPITAL OF THE COMPANY.

PRICE BAND: Rs. [●] TO Rs. [●] PER EQUITY SHARE OF FACE VALUE Rs. 10

THE FACE VALUE OF THE SHARE IS RS. 10 AND THE FLOOR PRICE IS [●] TIMES THE FACE VALUE AND THE CAP PRICE IS [●] TIMES THE FACE VALUE

The Issue is being made through a 100% Book Building Process wherein up to 50% of the Issue will be allocated to Qualified Institutional Buyers (“QIBs”) on a proportionate basis. Out of the portion available for allocation to the QIBs, 5% will be available for allocation to Mutual Funds. Mutual Fund applicants shall also be eligible for proportionate allocation under the balance available for the QIBs. Further, at least 15% of the Issue will be available for allocation on a proportionate basis to Non-Institutional Bidders and at least 35% of the Issue will be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid bids being received at or above the Issue Price.

RISK IN RELATION TO THE FIRST ISSUE

This being the first Issue of Equity Shares of the Company, there has been no formal market for the Equity Shares of the Company. The face value of the shares is Rs. 10 and the Floor Price is [●] times of the face value and the Cap Price is [●] times of the face value. The Price Band (as determined by the Company in consultation with the Book Running Lead Managers (“BRLMs”) on the basis of assessment of market demand for the Equity Shares by way of book building) should not be taken to be indicative of the market price of the Equity Shares after the Equity Shares are listed. No assurance can be given regarding an active and/or sustained trading in the Equity Shares or regarding the price at which the Equity Shares will be traded after listing.

GENERAL RISKS

Investments in equity and equity-related securities involve a degree of risk and investors should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of the Company and the Issue including the risks involved. The Equity Shares offered in the Issue have not been recommended or approved by the Securities and Exchange Board of India (“SEBI”), nor does SEBI guarantee the accuracy or adequacy of this Draft Red Herring Prospectus. Specific attention of the investors is invited to the section titled “Risk Factors” on page viii of this Draft Red Herring Prospectus.

ISSUER’S ABSOLUTE RESPONSIBILITY

The Company having made all reasonable inquiries, accepts responsibility for and confirms that this Draft Red Herring Prospectus contains all information with regard to the Company and the Issue, which is material in the context of the Issue, that the information contained in this Draft Red Herring Prospectus is true and correct in all material aspects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Draft Red Herring Prospectus as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

LISTING

The Equity Shares offered through this Draft Red Herring Prospectus are proposed to be listed on the Bombay Stock Exchange Limited (BSE) and the National Stock Exchange of India Limited (NSE) and the Company has received in-principle approval from the stock exchanges for the listing of the Equity Shares pursuant to letters dated [●] and [●] respectively. NSE will be the Designated Stock Exchange for this Issue.

BOOK RUNNING LEAD MANAGERS		REGISTRAR TO THE ISSUE
 ICICI SECURITIES LIMITED ICICI Centre H.T. Parekh Marg, Churchgate, Mumbai - 400 020 Tel: (91 22) 2288 2460 Fax: (91 22) 2282 6580 E-mail: rohl_ipo@isecltd.com Website: www.iseconline.com	 SBI CAPITAL MARKETS LIMITED 202, Maker Tower ‘E’, Cuffe Parade, Mumbai – 400 005. Tel: (91 22) 2218 9166 Fax: (91 22) 2218 8332 E-mail: rohl@sbicaps.com Website: www.sbicaps.com	 MCS LIMITED Sri Venkatesh Bhavan, Plot No. 27, Road No.11, M.I.D.C. Andheri (East), Mumbai - 400 093 Tel: (91 22) 2820 1785 Fax: (91 22) 2820 1783 E-mail : royalorchid@mcsind.com Website: www.mcsind.com

ISSUE PROGRAMME			
BID / ISSUE OPENS ON	[●]	BID / ISSUE CLOSES ON	[●]

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ABBREVIATIONS

Term	Description
“Issuer” or “Company” or “ROHL” or “Royal Orchid Hotels Limited”	Royal Orchid Hotels Limited, a company incorporated under the Companies Act
“We” or “us” or “our”	Unless otherwise specified, these references mean Royal Orchid Hotels Limited and its subsidiaries

ISSUE RELATED TERMS

Term	Description
Allotment	Issue of Equity Shares pursuant to the Issue to the successful Bidders as the context requires.
Allottee	The successful Bidder to whom the Equity Shares are being/have been issued.
Banker(s) to the Issue	■
Bid	An indication to make an offer during the Bidding Period by a prospective investor to subscribe to our Equity Shares at a price within the Price Band, including all revisions and modifications thereto.
Bid Amount	The highest value of the optional Bids indicated in the Bid cum Application Form.
Bid Closing Date /Issue Closing Date	The date after which the Syndicate will not accept any Bids for the Issue, which shall be notified in an English national newspaper, a Hindi national newspaper and a Kannada newspaper with wide circulation.
Bid Opening Date/Issue Opening Date	The date on which the Syndicate shall start accepting Bids for the Issue, which shall be the date notified in an English national newspaper, a Hindi national newspaper and a Kannada newspaper with wide circulation.
Bid cum Application Form	The form in terms of which the Bidder shall make an offer to subscribe to the Equity Shares of the Company and which will be considered as the application for issue of the Equity Shares pursuant to the terms of this Draft Red Herring Prospectus.
Bidder	Any prospective investor who makes a Bid pursuant to the terms of this Draft Red Herring Prospectus and the Bid cum Application Form.
Bidding Period / Issue Period	The period between the Bid Opening Date/Issue Opening Date and the Bid Closing Date/Issue Closing Date inclusive of both days and during which prospective Bidders can submit their Bids.
Book Building Process	Book building route as provided under Chapter XI of the SEBI Guidelines, in terms of which the Issue is made.
BRLMs/Book Running Lead Managers	Book Running Lead Managers to the Issue, in this case being ICICI Securities Limited and SBI Capital Markets Limited.
CAN/Confirmation of Allocation Note	Means the note or advice or intimation of allocation of Equity Shares sent to the Bidders who have been allocated Equity Shares after discovery of the Issue Price in accordance with the Book Building Process.
Cap Price	The higher end of the Price Band, above which the Issue Price will not be finalised and above which no Bids will be accepted.
Cut-off Price	Any price within the Price Band finalised by us in consultation with the BRLMs. A Bid submitted at Cut-off Price is a valid Bid at all price levels within the Price Band.
Designated Date	The date on which funds are transferred from the Escrow Account(s) to the Issue Account after the Prospectus is filed with the RoC, following which the Board shall allot Equity Shares to successful Bidders.
Designated Stock Exchange	National Stock Exchange of India Limited.
Draft Red Herring Prospectus or DRHP	The Draft Red Herring Prospectus filed with the SEBI on November 3, 2005, which does not have complete particulars on the price at which the Equity Shares are offered and size of the Issue.
Equity Shares	Equity shares of the Company of Rs. 10 each unless otherwise specified in the context thereof.
Escrow Account	Account opened with an Escrow Collection Bank(s) and in whose favour

Term	Description
Escrow Agreement	the Bidder will issue cheques or drafts in respect of the Bid Amount. Agreement entered into amongst the Company, the Registrar, the Escrow Collection Bank(s) and the BRLMs for collection of the Bid Amounts and for remitting refunds, if any, of the amounts collected, to the Bidders.
Escrow Collection Bank(s)	The banks, which are clearing members and registered with SEBI as Banker(s) to the Issue, at which the Escrow Account will be opened.
First Bidder	The Bidder whose name appears first in the Bid cum Application Form or Revision Form.
Floor Price	The lower end of the Price Band, below which the Issue Price will not be finalised and below which no Bids will be accepted.
IBSL	ICICI Brokerage Services Limited.
IPO	Initial Public Offering.
I-Sec	ICICI Securities Limited.
Issue	Public issue of 6,820,000 Equity Shares at the Issue Price pursuant to the Draft Red Herring Prospectus and the Prospectus.
Issue Account	Account opened with the Banker(s) to the Issue to receive monies from the Escrow Accounts for the Issue on the Designated Date.
Issue Period	The Issue Period shall be [●], the Issue opening date to [●], the Issue closing date.
Issue Price	The final price at which Equity Shares will be allotted in terms of the Prospectus, as determined by the Company in consultation with the BRLMs, on the Pricing Date.
Margin Amount	The amount paid by the Bidder at the time of submission of his/her Bid, which may range between 10% to 100% of the Bid Amount.
Mutual Fund	A fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instrument and registered with the SEBI under the SEBI(Mutual Funds) Regulations, 1996.
Non-Institutional Bidders	All Bidders that are not QIBs or Retail Individual Bidders and who have Bid for Equity Shares for an amount more than Rs. 100,000.
Non-Institutional Portion	The portion of the Issue being 1,023,000 Equity Shares of Rs. 10/- each available for allocation to Non Institutional Bidders.
Pay-in Date	The Bid/Issue Closing Date or the last date specified in the CAN sent to the Bidders as applicable
Pay-in-Period	(i) With respect to Bidders whose Margin Amount is 100% of the Bid Amount, the period commencing on the Bid Opening Date and extending until the Bid Closing Date, and (ii) with respect to Bidders whose Margin Amount is less than 100% of the Bid Amount, the period commencing on the Bid Opening Date and extending up to the date specified in the CAN.
Price Band	The price band with a minimum price (Floor Price) of Rs. [●] and the maximum price (Cap Price) of Rs. [●], including any revisions thereof.
Pricing Date	The date on which the Company in consultation with the BRLMs finalizes the Issue Price.
Promoter Group Companies	Unless the context otherwise requires, refers to those companies mentioned in the section titled “Group/Related Companies/Entities” on page 85 of this Draft Red Herring Prospectus.
Promoters	Mr. Chander K. Baljee, Mrs. Sunita Baljee, Mr. Arjun Baljee, Mr. Keshav Baljee, Baljees Hotels and Real Estates Private Limited.
Prospectus	The Prospectus, filed with the RoC containing, inter alia, the Issue Price that is determined at the end of the Book Building Process, the size of the Issue and certain other information.
Public Issue Account	Account opened with the Bankers to the Issue to receive monies from the Escrow Account for the Issue on the Designated Date
QIB Portion	The portion of the Issue to public and up to 3,410,000 Equity Shares of Rs. 10/- each at the Issue Price, available for allocation to QIBs.
Qualified Institutional Buyers or QIBs	Public financial institutions as defined in Section 4A of the Companies Act, FIIs, scheduled commercial banks, mutual funds registered with SEBI, venture capital funds registered with SEBI, foreign venture capital investors registered with SEBI, state industrial development corporations,

Term	Description
Registrar /Registrar to the Issue	insurance companies registered with the Insurance Regulatory and Development Authority, provident funds with a minimum corpus of Rs. 250 million, pension funds with a minimum corpus of Rs. 250 million, and multilateral and bilateral development financial institutions. Registrar to the Issue, in this case being MCS Limited.
Retail Individual Bidders	Individual Bidders (including HUFs) who have Bid for Equity Shares for an amount less than or equal to Rs. 100,000, in any of the bidding options in the Issue.
Retail Portion	The portion of the Issue and being a minimum of 2,387,000 Equity Shares of Rs. 10/- each available for allocation to Retail Individual Bidder(s).
Revision Form	The form used by the Bidders to modify the quantity of Equity Shares or the Bid Price in any of their Bid cum Application Forms or any previous Revision Form(s).
DRHP or Draft Red Herring Prospectus	Means the document issued in accordance with the SEBI Guidelines, which does not have complete particulars on the price at which the Equity Shares are offered and the size of the Issue. The Draft Red Herring Prospectus which will be filed with the RoC at least 3 days before the Bid Opening Date and will become a Prospectus after filing with the RoC after pricing and allocation.
SBI Caps	SBI Capital Markets Limited
SCRA	Securities Contracts (Regulation) Act, 1956, as amended
SCRR	Securities Contracts (Regulation) Rules, 1957, as amended.
SICA	Sick Industries Companies (Special Provisions) Act, 1985
Stock Exchanges	BSE and NSE.
Syndicate	The BRLMs and the Syndicate Member.
Syndicate Agreement	The agreement to be entered into between the Company and the Syndicate, in relation to the collection of Bids in this Issue.
Syndicate Member	ICICI Brokerage Services Limited.
TRS or Transaction Registration Slip	The slip or document issued by the Syndicate Members to the Bidder as proof of registration of the Bid.
Underwriters	The BRLMs and the Syndicate Member.
Underwriting Agreement	The agreement among the members of the Syndicate and the Company to be entered into on or after the Pricing Date.

COMPANY AND INDUSTRY TERMS

Term	Description
ARR	Average Room Rental calculated by dividing the total room revenue by the number of rooms occupied
Auditors	The statutory auditors of the Company, being Walker, Chandio & Co, Chartered Accountants.
Board of Directors/Board Director(s)	The board of directors of the Company or a committee constituted thereof. Director(s) of the Company, unless otherwise specified.
ESIC	Employees's State Insurance Corporation
ETP	Effluent Treatment Plant
F&B	Food and Beverage
FHRAI	Federation of Hotel and Restaurant Associations of India
HRACC	Hotel Restaurant Approval and Classification Committee
ICAI	The Institute of Chartered Accountants of India
MIS	Management Information System
Occupancy	Total number of room days occupied divided by the total number of room days available
Registered Office	The registered office of the Company being Royal Orchid Harsha, No.11, Park Road, Bangalore 560 051

CONVENTIONAL/GENERAL TERMS

Term	Description
AGM	Annual General Meeting
Articles/ Association	Articles of The Articles of Association of Royal Orchid Hotels Limited.
AS	Accounting Standards as issued by the Institute of Chartered Accountants of India.
BSE	Bombay Stock Exchange Limited
CAGR	Compounded Annual Growth Rate.
CDSL	Central Depository Services (India) Limited.
Companies Act	The Companies Act, 1956, as amended from time to time.
Depositories Act	The Depositories Act, 1996, as amended from time to time.
Depository	A body corporate registered under the SEBI (Depositories and Participant) Regulations, 1996, as amended from time to time.
Depository Participant	A depository participant as defined under the Depositories Act.
EGM	Extraordinary General Meeting
EPS	Earnings per share.
FCNR Account	Foreign Currency Non Resident Account.
FEMA	Foreign Exchange Management Act, 1999, as amended from time to time, and the regulations framed thereunder.
FII	Foreign Institutional Investor (as defined under Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000) registered with SEBI under applicable laws in India.
Financial Year /fiscal year/ FY/ fiscal	Period of twelve months ended March 31 of that particular year, unless otherwise stated.
FIPB	Foreign Investment Promotion Board.
FVCI	Foreign Venture Capital Investor
Government/ GOI	The Government of India.
HUF	Hindu Undivided Family.
I.T. Act	The Income Tax Act, 1961, as amended from time to time.
Indian GAAP	Generally accepted accounting principles in India.
Memorandum/ Memorandum of Association	The Memorandum of Association of Royal Orchid Hotels Limited.
Mn, mn	Million
NAV	Net asset value.
Non Residents	Non-Resident is a Person resident outside India, as defined under FEMA and who is a citizen of India or a Person of Indian Origin under Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000.
NRE Account	Non-Resident External Account.
NRI/Non-Resident Indian	Non-Resident Indian, is a Person resident outside India, who is a citizen of India or a Person of Indian origin and shall have the same meaning as ascribed to such term in the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000.
NRO Account	Non-Resident Ordinary Account.
NSDL	National Securities Depository Limited.
NSE	National Stock Exchange of India Limited.
OCB/ Overseas Corporate Body	A company, partnership, society or other corporate body owned directly or indirectly to the extent of at least 60% by NRIs, including overseas trusts in which not less than 60% of beneficial interest is irrevocably held by NRIs directly or indirectly as defined under Foreign Exchange Management (Deposit) Regulations, 2000. OCBs are not allowed to invest in this Issue.
P/E Ratio	Price/Earnings Ratio.
PAN	Permanent Account Number.
Person/Persons	Any individual, sole proprietorship, unincorporated association, unincorporated organization, body corporate, corporation, company, partnership, limited liability company, joint venture, or trust or any other

Term	Description
	entity or organization validly constituted and/or incorporated in the jurisdiction in which it exists and operates, as the context requires.
PIO/ Person of Indian Origin	Shall have the same meaning as is ascribed to such term in the Foreign Exchange Management (Investment in Firm or Proprietary Concern in India) Regulations, 2000.
RBI	The Reserve Bank of India.
Reserve Bank of India Act/ RBI Act	The Reserve Bank of India Act, 1934, as amended from time to time.
RoC	The Registrar of Companies, Karnataka at Bangalore.
SEBI	The Securities and Exchange Board of India constituted under the SEBI Act, 1992.
SEBI Guidelines	SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 27, 2000, as amended, including instructions and clarifications issued by SEBI from time to time.
SEBI Takeover Regulations	Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations, 1997, as amended from time to time.

CERTAIN CONVENTIONS; USE OF MARKET DATA

Unless stated otherwise, the financial data in this Draft Red Herring Prospectus is derived from our financial statements prepared in accordance with Indian GAAP and included in this Draft Red Herring Prospectus. Our fiscal year commences on April 1 every year and closes on March 31 of the next year. In this Draft Red Herring Prospectus, any discrepancies in any table between the total and the sums of the amounts listed are due to rounding-off.

There are significant differences between Indian GAAP and U.S. GAAP; accordingly, the degree to which the Indian GAAP financial statements included in this Draft Red Herring Prospectus will provide meaningful information is entirely dependent on the reader's level of familiarity with Indian accounting practices. Any reliance by Persons not familiar with Indian accounting practices on the financial disclosures presented in this Draft Red Herring Prospectus should accordingly be limited. We have not attempted to explain those differences or quantify their impact on the financial data included herein, and we urge you to consult your own advisors regarding such differences and their impact on our financial data.

For additional definitions, please see the section titled "Definitions and Abbreviations" starting on page i of this Draft Red Herring Prospectus.

Unless stated otherwise, industry data used throughout this Draft Red Herring Prospectus has been obtained from industry publications. Industry publications generally state that the information contained in those publications has been obtained from sources believed to be reliable but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although we believe that industry data used in this Draft Red Herring Prospectus is reliable, it has not been independently verified.

FORWARD-LOOKING STATEMENTS

We have included statements in this Draft Red Herring Prospectus, that contain words or phrases such as “will”, “aim”, “will likely result”, “believe”, “expect”, “will continue”, “anticipate”, “estimate”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “project”, “should”, “will pursue” and similar expressions or variations of such expressions that are “forward-looking statements”. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding our expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to our business strategy, our revenue and profitability, planned projects and other matters discussed in this DRHP regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Draft Red Herring Prospectus (whether made by us or any third party) involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

All forward-looking statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from our expectations include, among others:

- general economic and business conditions in India and other countries;
- our ability to successfully implement our strategy, growth, new projects and expansion plans;
- our ability to successfully roll out our suite of products;
- changes in laws and regulations that apply to hotel, tourism and hospitality industry, including laws that impact our ability to enforce our collateral;
- changes in political conditions in India; and
- changes in the foreign exchange control regulations in India.

For further discussion of factors that could cause our actual results to differ, see the section titled “Risk Factors” on page viii of this Draft Red Herring Prospectus. By their nature, certain risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated. The Company, the members of the Syndicate and their respective affiliates do not have any obligation to, and do not intend to, update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, the Company and the BRLMs will ensure that investors in India are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges.

RISK FACTORS

Prospective investors should carefully consider the risks described below, in addition to the other information contained in this Draft Red Herring Prospectus before making any investment decision relating to our Equity Shares. The occurrence of any of the following events could have a material adverse effect on our business, results of operation, financial condition and prospects and cause the market price of our Equity Shares to fall significantly and you may lose all or part of your investment.

Prior to making an investment decision, prospective investors should carefully consider all of the information contained in this Draft Red Herring Prospectus, including the restated consolidated financial statements included in this Draft Red Herring Prospectus beginning on page 91 . Unless stated otherwise, the financial data in this section is as per our restated consolidated financial statements prepared in accordance with Indian GAAP.

Unless otherwise stated in the relevant risk factors set forth below, we are not in a position to specify or quantify the financial or other implications of any of the risks mentioned herein.

Internal Risk Factors

Our business has made losses in FY2002 and FY 2001

We have made losses of Rs. 18.67 million and Rs. 1.37 million in FY 2002 and FY2001 respectively as per our restated consolidated financial statements. Although our existing operations are profitable we cannot guarantee that we will not make losses in the future.

We have planned capital expenditures, which may not yield the benefits intended.

We have commenced Rs. 465.70 million capital expenditure plans aimed at expanding our presence in Bangalore and starting hotel operations in Hyderabad and Pune. Further we intend to utilise Rs. 296.79 million for modernisation and renovation of our existing properties in Bangalore. Please refer to the section entitled “Objects of the Issue” beginning on page 18 for details of proposed expansion and modernisation plans. Our capital expenditure plans are subject to a number of variables, including possible cost overruns; construction/development delays or defects; receipt of critical governmental approvals; and changes in management’s views of the desirability of current plans, among others. In view of the reasons stated above, we cannot assure you that we will be able to execute our expansion plans as contemplated. Due to time and/or cost overrun the overall benefit of such plans to our revenues and profitability may decline. To the extent that completed and/or planned capital expenditure does not produce anticipated or desired revenue or cost-reduction outcomes, our profitability and financial condition will be negatively affected.

We have not entered into definitive agreements to utilise all the proceeds of the Issue.

The funds being raised through the Issue are proposed to be used for operating hotels on long-term lease and incurring the relevant capital expenditure as well as modernization and renovation of existing hotel properties. The proposed activities for which the funds are being raised have not been appraised by any bank or financial institution and the funds requirements are based on management estimate. Except for signing Memorandum of Understandings or Agreement to Lease, we have not entered into the Lease Deeds or any definitive agreements to utilise such net proceeds. No orders for furniture and fixtures, equipments, machinery and other capital expenditure have yet been placed with the suppliers. In the absence of any monitoring agency, the deployment of funds is entirely at the discretion of the management.

We intend to utilise a portion of the proceeds of the Issue to acquire 51% of the equity share capital of Maruti Comforts and Inns Private Limited which has accumulated losses as on date and has made losses in FY 2000 and FY 2001

We intend to utilise an amount of Rs. 68.85 million out of the proceeds of the Issue to acquire 51% of the equity share capital of Maruti Comfort and Inns Private Limited which has an accumulated loss of Rs. 40.03 million as on March 31, 2005 representing approximately two times its networth. Further it has incurred losses of Rs. 20.06 million and Rs. 23.41 million in FY 2001 and FY 2002 respectively. Since Maruti Comforts and Inns Private Limited will become our subsidiary, any loss incurred by it will have an adverse impact on our consolidated financial results.

We are yet to receive certain licenses and approvals for our proposed expansion

For our expansion plans in Bangalore, Hyderabad and Pune, we are yet to apply for and receive various approvals / permissions from jurisdictional, statutory and regulatory authorities, a summary of which is described in the section titled “Licenses and Approvals” on page 182. We shall be applying for such approvals and permissions at the appropriate time. Failure or delay in obtaining these approvals would adversely affect our business and may result in significant cost over runs and delays in our expansion plans.

Our revenues include revenues from hotel management contracts, lease agreements and properties situated on leasehold land and we are subject to the risks, including non-renewal, termination and disputes, associated with such contracts

We have entered into hotel management contracts for managing various hotel properties. Management contracts are based on the management of hotels owned by third parties. These contracts may not be renewed when they expire and in some events can be terminated prior to expiration. These management contracts expose us to the risk of disputes with the relevant property owners.

We have entered into lease agreements in respect of certain hotel properties. Further, one of the hotels owned by the Company is situated on leasehold land. We have also entered into a lease agreement for operating a hotel property namely, Royal Orchid Harsha, on an eleven month lease. These lease agreements may not be renewed when they expire and in some events can be terminated prior to their expiration. Moreover, since the lease arrangements are subject to renewal from time to time on mutually agreeable terms, there may be an increase in license fees and lease rentals.

We may not be able to sustain effective implementation of our business and growth strategy

The success of our business will depend greatly on our ability to effectively implement our business and growth strategy. Whilst we have successfully executed our business strategy in the past, there can be no assurance that we will be able to execute our strategy on time and within the estimated budget, or that we will meet the expectations of targeted customers. We expect our growth strategy to place significant demands on our management, financial and other resources and require us to continue developing and improving our operational, financial and other internal controls. Our inability to manage our business and growth strategy could have a material adverse effect on our business, financial condition and profitability.

Our existing business is confined to one state and we are now proposing to expand our operations into other states

All our existing properties are located in Bangalore and Mysore in the state of Karnataka. We have not had any operations outside Karnataka till date. We propose to expand our operations to Hyderabad and Pune located in the states of Andhra Pradesh and Maharashtra respectively. We may face difficulties in development and management of hotel properties in these cities due to lack of local experience. This may have an adverse impact on the profitability we wish to achieve through our expansion plans.

The hotel industry is cyclical and sensitive to changes in the economy and this could have a significant impact on our operations and financial results

The hotel business is cyclical and sensitive to changes in the economy in general. The hotel sector may be unfavourably affected by such factors as changes in the global and domestic economies, changes in local market conditions, excess hotel supply or reduced demand for hotel rooms and associated services, competition in the industry, changes in interest rates, the availability of finance and other natural and social factors. Since demand for hotels is affected by economic growth in India as well as globally, a global or domestic recession could lead to a downturn in the hotel industry. Such adverse developments in the hotel industry in India or in the cities where our hotels are located would have a negative impact on our profitability and financial condition.

We are subject to risks associated with the domestic and regional property markets.

Our operations involve participation in the hotel and serviced apartment property market. As a participant in such market, we may be unfavourably affected by factors such as a change in the domestic and regional economic situation in the place where a hotel property is located, changes in the home countries of tourists

staying at hotels, changes in the situation of the local markets where hotels are situated, such as a surplus of hotel rooms, a reduction in local demand for rooms as well as the related services, or increased competition in the sector. In addition, we may be adversely affected by factors specific to property markets, such as changes in interest rates, availability of financing sources, the general cost of land and buildings, legislation in the construction industry and hotel location requirements.

We are subject to operating risks common in the hotel industry.

Our financial results are affected by occupancy and room rate achieved by our hotels, our ability to control cost of developing and running additional rooms, the success of our food and beverage operations. Further our operating margins would be adversely affected by increase in electricity, insurance and environmental compliance expenses. Our hotels would have to be renovated periodically to keep up with the changing trends and such renovation may involve significant development and maintenance costs. Our inability to manage the above operating risk would have a negative impact on our profitability and financial position.

Our business is seasonal in nature

Our revenues are generally higher during the second half (October to March) of each fiscal year as compared to the first half (April to September) of the fiscal year. Any disturbances / disruptions during this period may lead to reduction in our revenues and can have a material adverse impact on our financial performance. Further, our revenues are generally lower during the festival season (Diwali, Christmas, etc.), vacation seasons and is generally higher during local events such as the Air Show and BangaloreIT.in in Bangalore. As a result of this, the quarter to quarter comparison of historical results may not be accurate or a meaningful indicator of our future performance.

Increased competition in the hotel sector may adversely affect the operation of our hotels.

Hotels owned, managed or operated by us compete for guests with other hotels in a highly competitive industry. Our success would be dependant on our ability to compete in areas such as room rates, quality of accommodation, service levels, brand recognition among others. Most of our current operations are in Bangalore where we face competition from existing hotel players and will also have to compete with any new hotel properties coming up in the city. We expect to face similar competition in the cities where we are expanding or have intentions of expanding to. There can be no assurance that new or existing competitors will not significantly lower rates or offer greater convenience, services or amenities or significantly expand or improve facilities in the market in which we operate. Such developments would affect our ability to compete with them and have a negative impact on our profitability and financial condition.

We have yet to apply for certain approvals with respect to our existing operations and there are certain approvals we have applied for which are pending

The Company has by letter dated March 16, 2004 to the Commissioner, Bangalore Mahanagara Palike requested for issuance of occupation certificate for the fifth floor of Hotel Royal Orchid and the same is pending.

Sacred Hospitality Private Limited has transferred to the Company's subsidiary, Icon Hospitality Private Limited, the right to use its license to sell liquor at the Royal Orchid Central for a consideration included in the lease rentals. In accordance with the terms of the deed of the license, the taxes are to be paid by Icon and the revenues from such sales are recorded in their financial statements. As per the provisions of the Karnataka Excise Act, 1965, transfer of leases or licenses to sell liquor requires the approval of the State Government. Icon Hospitality Private Limited has not yet applied to the State Government for such transfer.

The insurance policies in respect of Royal Orchid Metropole have expired on November 2, 2005 and the Company is in the process of applying for renewal of the same.

The Company and its subsidiaries are involved in certain legal proceedings that, if determined against the Company or its subsidiaries, as the case may be, could have a material adverse impact on the Company.

The Company is party to various legal proceedings, including, writ petition proceedings, suits, labour related proceedings, employee state insurance claims. The disputed employee state insurance contribution claim aggregates to approximately Rs.3.90 million. These proceedings are pending at different levels of adjudication before the appropriate forums and if determined against us, could have a material adverse impact on our business, financial condition and results of operations. The particulars of the important litigations against the Company and its subsidiaries are as under:

1. Writ petitions were filed before the High Court of Karnataka seeking that the building complex known as Manipal Center be demolished in the event that the same is found to be violative of the building bye-laws of the Bangalore City Corporation. Royal Orchid Central, then known as Hotel Central Park, is situated in the aforesaid building complex and consequently was impleaded in the matter after the petition was filed. The learned Single Judge of the Hon'ble High Court directed the Bangalore Mahanagara Palike to inspect the building and to initiate necessary action in accordance with law.

Aggrieved by the decision, all the affected parties filed writ appeals before the Division Bench of the Hon'ble High Court of Karnataka. The Learned Division Bench passed an interim order directing that that the Commissioner, Bangalore City Corporation initiate action under section 321 (1) of the Karnataka Municipal Corporations Act, 1976. Pursuant to the same, the Appellants filed Special Leave Petition No. 8672/ 2002 before the Hon'ble Supreme Court of India under Article 136 of the Constitution of India against the said interim order. The Supreme Court directed that the High Court dispose of the matter expeditiously and give quietus to the matter. Pursuant to and in compliance of the order of the Supreme Court of India, as aforesaid, the Chief Justice constituted a Division Bench for the disposal of the said petition. The Division Bench, constituted as detailed above, by an order dated September 21, 2005 dismissed the original writ petitions of the original petitioners and allowed the writ appeals filed by the Appellants.

The Special Leave Petition No. 8672/ 2002 is presently pending before the Hon'ble Supreme Court of India pending final disposal consequent to the dismissal of the writ petitions.

2. One Dr. Gurumurthy has filed an original suit before the City Civil Court in Bangalore against the Karnataka State Tourism Development Corporation ("KSTDC") and others including the Company. KSTDC had acquired land bearing Sy. No. 162/1 & 162/2 and leased the same to the Company. Hotel Royal Orchid is situated on this land taken on lease by the Company from KSTDC. The Petitioner who was in possession of the property prior to acquisition has challenged the acquisition of land by KSTDC. The matter is pending before the Civil Court.
3. Similar to matter in 2 hereinabove, one Mrs. Gowramma filed an original suit before the City Civil Court challenging the acquisition of land bearing Sy. No.161 by the KSTDC. The said land was acquired by KSTDC and leased to the Company. Hotel Royal Orchid is situated on this land. The Company has obtained injunction restraining the petitioners from interfering in the peaceful possession and enjoyment of the property. The matter is pending before the City Civil Court, Bangalore.

In the event that an unfavourable order(s) is passed, the same may have an adverse effect on our operations and financial results. The other litigations pending against and/or filed by the Company and its subsidiaries are as provided in the section 'Outstanding Litigations' on page 176 of this Draft Red Herring Prospectus.

Outstanding criminal litigation involving Promoters

Mr. Shashi Vagale joined one of the hotels of the Promoters, namely Baljees Hotels and Real Estates Private Limited as Chief Operating Officer in July 2003. Consequent to certain alleged conduct of Mr. Shashi Vagale, the employer company filed a complaint in September 2003 under section 354 of the Indian Penal Code, 1872 for criminal breach of trust. On or around the same time in September 2003, Mr. Vagale filed a complaint under section 380 of the Indian Penal Code, 1872 against the Promoters, namely Mr. Chander K. Baljee and Mrs. Sunita Baljee and other directors and employees of the employer company alleging theft of various personal belongings and items such as pens, watches, necklace, etc. Pursuant to the same, the Chief Metropolitan Magistrate, Bangalore issued a summons against Mr. Chander K. Baljee and Mrs. Sunita Baljee. The Hon'ble Karnataka High Court has stayed the said proceedings and the same is

pending. For details of the litigation refer to the section titled 'Outstanding Litigations' on page 176 of this Draft Red Herring Prospectus.

There are certain legal proceedings against the Company's Promoters, Directors and group companies

The Company's Promoters, Directors and group companies are parties to certain legal proceedings initiated against such parties. These proceedings are pending at different levels of adjudication before the appropriate forums.

One of our Promoters, Baljees Hotels and Real Estates Private Limited is involved in a dispute pending with the Department of Income Tax regarding the allowability of certain expenditure as revenue expenditure in the income tax assessment for the assessment year 2001-02. The income tax liability in dispute is approximately Rs. 1.71 million. The matter is pending before the Income Tax Appellate Tribunal, Karnataka.

Mr. Chander K. Baljee, the Company's Promoter and Chairman and Managing Director and Mrs. Sunita Baljee, one of our Promoters, have received a legal notice from Mr. Shashi Vagale claiming Rs. 8.4 million as damages, including Rs. 3.4 million as actual damages for loss of personal effects and Rs.5.0 million as penal damages for defamation. However, no civil suit has yet been instituted on this cause of action or notice.

There are criminal complaints against Mr. Jaithirth Rao, our independent Director, as a director of Cadbury India Limited pending, including before the Sessions Courts in Maharashtra and Madhya Pradesh for prosecution under the provisions of the Prevention of Food Adulteration Act, 1954.

The details of such litigations pending against the Company's Promoters, Directors and group companies are as provided in the section on 'Outstanding Litigations' on page 176 of this Draft Red Herring Prospectus.

We have certain contingent liabilities which may adversely affect our financial condition

As on June 30, 2005 contingent liabilities not provided for appearing in our consolidated financial statements aggregated Rs. 118.01 million. The following table gives the details of the nature of contingent liabilities

Particulars	Rs million
Claims against the Company not acknowledged as debts	3.90
Capital Commitments	30.62
Export obligation	83.49
TOTAL	118.01

In the event that any of these contingent liabilities materialise, our financial condition may be adversely affected.

Our operations may be adversely affected if relations with employees were to deteriorate

Relations with employees could deteriorate due to disputes related to, among other things, wage or benefit levels. Our operations rely heavily on employees and on the employees' ability to provide high-quality personal service to guests. Shortage of skilled labour or stoppage caused by disagreements with employees could adversely affect our ability to provide these services and could lead to reduced occupancy or potentially damage our reputation. In addition, we rely heavily on certain key employees – please refer section titled "Our Management" on page 71 of this Draft Red Herring Prospectus. If these particular employees should cease to be employed by us, this could adversely affect our operations.

We will be controlled by our Promoters as long as they own a majority of our Equity Shares, and our other shareholders will be unable to affect the outcome of shareholder voting during such time

After the completion of this Issue, the Promoters and the Promoter Group will own approximately 68.44% of our issued Equity Share Capital. As a result, our Promoters and Promoter Group will have the ability to appoint the majority of the members of the Board, in accordance with the Companies Act and our Articles of Association, and determine the outcome of actions requiring the approval of our shareholders. The interests of our Promoter may conflict with the interests of our other investors, and you may not agree with

actions it may take. Further, the extent of the Promoters shareholding in us may result in delay or prevention of a change of management or control of the Company, even if such a transaction may be beneficial to our other shareholders.

There exists a potential conflict of interest between us and certain ventures promoted by our Promoters.

Our Promoter company i.e. Baljees Hotels and Real Estates Private Limited as well as certain other companies forming part of the Promoter Group namely Hotel Stay Longer Private Limited, Presidency Caterers, Cuisine Artists Private Limited and Royal Orchid Banjara Private Limited are in the business operating hotels and restaurants. Hence to this extent there exists a potential conflict of interest between us and these entities.

Further we have taken on lease Hotel Royal Orchid Harsha from Hotel Stay Longer Private Limited. The lease deed is for a period of eleven months and renewable thereafter at our option for such term as may be mutually agreed upon by the parties. If the lease is not renewed or is renewed with an increased lease rental, then our operations and results could be adversely affected.

We have in the last twelve months issued equity shares at prices that may be lower than the Issue price

We have in the last twelve months made the issue of following shares at a price which may be less than the Issue price

Date of allotment of the Equity Shares	No. of Equity Shares	Face Value (Rs.)	Issue Price (Rs.)	Nature of Payment	Reasons for allotment
March 14, 2005	571,900	10	10	Cash	Further issue
July 18, 2005	12,500	10	200	Cash	Further issue
August 27, 2005	10,000	10	200	Cash	Further issue
August 31, 2005	2,500	10	200	Cash	Further issue
September 28, 2005	9,717,470	10	NA	Bonus	Bonus (1:1)
October 21, 2005	974,025	10	154	Cash	Further issue

We are subject to restrictive covenants in certain debt facilities provided to us by our lenders

There are restrictive covenants in agreements we have entered into with certain banks for borrowings. These restrictive covenants require us to seek the prior permission of the said banks for various activities, including amongst others, undertaking certain projects, issuing new securities, changing management, merger, consolidation sale of assets, creating subsidiaries or making certain investments, and certain financial covenants may limit our ability to borrow additional money or to incur additional liens. We have been able in the past to obtain required lender consents for desired actions, but there can be no assurance that such consents will be obtained in the future.

External Risk Factors

Our profitability could decrease if the Government of India or the applicable state governments reduced or withdrew tax benefits and other incentives provided to us

There are certain incentives and concessions granted or provided by the Government of India or the applicable state governments that are currently being enjoyed by the hotel industry. There is no guarantee that such incentives or concessions will continue or will not be withdrawn by the Government of India or the applicable state governments in the future.

The hotel industry is subject to significant regulations.

We are subject to numerous laws and regulations in all of the jurisdictions in which we operate, including those relating to the preparation and sale of food and beverages, such as health and liquor licensing laws. Our properties are also subject to laws and regulations governing relationships with employees in such areas as minimum wage and maximum working hours, overtime, working conditions, hiring and terminating of employees and work permits. Furthermore, the success of our strategy to expand our existing properties, acquire new properties or to open newly-constructed properties is contingent upon, amongst other things, receipt of all required licenses, permits and authorisations, including local land use permits,

building and zoning permits, environmental, health and safety permits and liquor licenses. Changes or concessions required by regulatory authorities could also involve significant costs and delay or prevent completion of the construction or opening of a project or could result in the loss of an existing license.

Disruptions or lack of basic infrastructure such as our electricity supply and water supply could adversely affect our operations.

The hotel industry is a service industry. Any disruption in basic infrastructure such as supply of electricity and water could affect the operations of our hotels and the services to our guests and hence could have an adverse effect on our business, results of operations and financial condition.

Terrorist attacks and other acts of violence or war involving India, the United States, the United Kingdom and other countries could adversely affect the economic markets, result in a loss of business confidence and adversely affect our business, profitability and financial condition

Terrorist attacks and other acts of violence or war, including those involving India, the United States, the United Kingdom or other countries, may adversely affect Indian and worldwide economic markets. These acts may also result in a loss of business confidence and have other consequences that could adversely affect our business, profitability and financial condition through reduction in business activity and business travel. Increased volatility in the economic markets can have an adverse impact on the economies of India and other countries, including economic recession.

Our operations could be effected by natural calamities at or in the vicinity of such facility

Our operations are dependent on our ability to protect our properties from any natural calamity like fire, earthquakes, floods, power losses and similar events. The occurrence of a natural disaster or other unanticipated problems at our hotels can cause interruptions in our operations. Any damage or failure that causes interruptions in our operations could have a negative impact on our profitability and financial condition.

Our performance is linked to the stability of Government policies and the political situation in India

The role of the Indian central and state governments in the Indian economy on producers, consumers and regulators has remained significant over the years. Since 1991, the Government of India has pursued policies of economic liberalization, including significantly relaxing restrictions on the private sector. The current Government in India, which was formed in June 2004, has continued policies and taken initiatives that support the continued economic liberalization policies that had been pursued by the previous governments. We cannot assure you that these liberalization policies will continue in the future. Protests against privatisation could slowdown the pace of liberalization and deregulation. The rate of economic liberalization could change, and specific laws and policies affecting hotels, foreign investment, currency exchange rates and other matters affecting investment in our securities could change as well. A significant change in India's economic liberalization and deregulation policies could disrupt business and economic conditions in India and thereby affect our business.

After this Issue, the price of our Equity Shares may be highly volatile, or an active trading market for our Equity Shares may not develop

The prices of our Equity Shares on the Indian stock exchanges may fluctuate after this Issue as a result of several factors, including:

- Volatility in the Indian and global securities market or in the Rupee's value relative to the U.S. dollar, the Euro and other foreign currencies;
- Our profitability and performance;
- Perceptions about our future performance or the performance of Indian hospitality companies in general;
- Performance of our competitors in the Indian hotel industry and the perception in the market about investments in the hotel industry;
- Adverse media reports on the Company or the Indian hotel industry;
- Changes in the estimates of our performance or recommendations by financial analysts;
- Significant developments in India's economic liberalisation and deregulation policies; and
- Significant developments in India's fiscal and environmental regulations.

There has been no public market for our Equity Shares. There can be no assurance that an active trading market for our Equity Shares will develop or be sustained after this Issue, or that the prices at which our Equity Shares are initially traded will correspond to the prices at which our Equity Shares will trade in the market subsequent to this Issue. Our share price is likely to be volatile and may decline post listing.

Notes to risk factors

1. Public Issue of 6,820,000 Equity Shares of Rs.10 each at a price of Rs [●] per share for cash aggregating Rs. [●] (herein after referred to as the “Issue”). The Issue would constitute 25.04% of the post issue paid up capital of the Company
2. Net worth of the Company as on June 30, 2005 is Rs. 273.15 million (based on unconsolidated financial statements). The book value of the Equity Shares of the Company as on June 30, 2005 is Rs. 14.92 per Equity Share (after adjusting for the issue of bonus shares in ratio of 1:1 on September 28, 2005).
3. The Company has issued bonus shares in the ratio of 1:1 on September 28, 2005
4. The average cost of acquisition of the Equity Shares of Rs. 10 by our Promoters are given below:

Promoter	Average cost of acquisition of shares (Rs.)
Mr. Chander K. Baljee	4.15
Mrs. Sunita Baljee	5.00
Mr. Arjun Baljee	5.00
Mr. Keshav Baljee	Nil (since received as gift)
Baljees Hotels and Real Estates Private Limited	5.00

5. The Issue is being made through a 100% Book Building Process wherein up to 50% of the Issue will be allocated to Qualified Institutional Buyers (“QIBs”) on a proportionate basis. Out of the portion available for allocation to the QIBs, 5% will be available for allocation to Mutual Funds. Mutual Fund applicants shall also be eligible for proportionate allocation under the balance available for the QIBs. Further, at least 15% of the Issue will be available for allocation on a proportionate basis to Non-Institutional Bidders and at least 35% of the Issue will be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid bids being received at or above the Issue Price.
6. Investors are advised to refer the paragraph on “Basis for the Issue Price” on page 33 of this Draft Red Herring Prospectus before making an investment in the Issue.
7. In the event of the Issue being oversubscribed, the allocation shall be on a proportionate basis to QIB Bidders, Retail Individual Bidders and Non-Institutional Bidders (Refer to the paragraph entitled “Basis of Allotment” on page 222 of this Draft Red Herring Prospectus).
8. The following Equity Shares have been sold or acquired by our Promoters, during the period of six months preceeding the date on which the Draft Red Herring Prospectus is filed with SEBI.

Transferor	Transferee	Date on which Equity Shares purchased or sold	Number of Equity Shares	Par value (Rs.)	Nature of payment	Purchase/ Sale Price (Rs.)
Sara Zacharia	Keshav Baljee	June 18, 2005	878,500	10	Gift Deed	---
Chander K. Baljee	Naresh K. Malhotra	August 27, 2005	2,500	10	Cash	10
Keshav Baljee	Chander K. Baljee	October 21, 2005	1,597,000	10	Gift Deed	--
Chander K. Baljee	Westbridge Ventures II Investment Holdings	October 21, 2005	649,350	10	Cash	154

The maximum transfer price is Rs. 154 per Equity Share and the minimum transfer price is Rs. 10 per Equity Share except for the shares transferred by the gift deed.

9. Investors are free to contact any of the BRLMs for any clarification or information pertaining to the Issue.
10. All information shall be made available by the BRLMs and the Company to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever.

11. Please refer to page 84 of this Draft Red Herring Prospectus for details on Related Party Transactions. Please refer to page 74 and 83 of this Draft Red Herring Prospectus for interests of Promoters and Directors.

SUMMARY

Indian Hotel Industry

The liberalisation of Indian economy in 1991 and the integration of India into the Global Economy has given impetus to business travellers and tourist travelers. As a result the hotel industry in India has recorded a healthy growth since 1991. In the late 1990s major hotel chains, new entrants and international chains entered the Indian market. However, over the past five years the growth in hotel rooms has been relatively low across all categories of hotels. The data relating to hotels which are members of FHRAI shows that the number of hotel rooms has increase from 91,294 in year 2000 to 98,515 in year 2004, a CAGR increase of 1.92%. This slow growth led to an increase in occupancy rates in hotels in main cities

The clientele for the hotels mainly comprises of Domestic and International Tourists and Business travellers and Airline crew. Domestic and international tourist travel is seasonal in nature and it increases during the period of October to March and decreases during April to September. However, the business travel is less seasonal.

The following figure represents the Average occupancy and Average Room Rentals in major Indian cities

City	Average Occupancy			Average Rate per Room		
	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04
New Delhi	55.90%	58.30%	69.10%	3,434	2,918	4,247
Mumbai	63.80%	62.60%	66.30%	2,075	1,822	3,063
Kolkata	61.70%	63.60%	64.60%	1,417	1,342	2,520
Chennai	65.00%	63.90%	61.60%	1,936	2,048	2,061
Bangalore	62.80%	72.40%	78.90%	1,921	2,149	4,109
Pune	58.00%	59.90%	62.10%	1,044	1,141	1,820
Goa	56.10%	60.20%	65.30%	1,756	1,982	2,147
Hyderabad	67.20%	71.00%	78.10%	1,131	2,049	2,406
All India Average	53.20%	54.80%	59.70%	2,058	2,004	2,689

Source: FHRAI

The above figures indicate that Bangalore and Hyderabad are the cities with relatively higher occupancy rates and provide opportunities for further expansion to cater to the increasing demand.

Overview of the Company

We operate and manage a chain of hotels under the brand “Royal Orchid” in Bangalore and Mysore in the state of Karnataka, India. At present we operate and manage four hotels- Hotel Royal Orchid, Royal Orchid Central and Royal Orchid Harsha in Bangalore and Royal Orchid Metropole in Mysore. Each of these hotels is targeted at a specific category of clientele giving us access to different customer segments.

We have two subsidiary companies i.e. Icon Hospitality Private Limited and Royal Orchid Hyderabad Private Limited. Royal Orchid Hotels Limited owns 51.22% of the equity share capital of Icon Hospitality Private Limited and 51.00% of the equity share capital of Royal Orchid Hyderabad Private Limited.

We are expanding our presence in Bangalore through the acquisition of another property and starting new hotels in Hyderabad and Pune.

In our four hotels put together we offer 435 rooms and operate eight food and beverage outlets and twelve banquet halls. During FY 2004-05 our revenue was Rs. 576.33 million from the various properties under operation. The revenue breakup from our main operations for FY 2005 is as follows:

Particulars	FY 2005		Q1 FY 2006	
	Amount (Rs mn)	Percentage	Amount (Rs mn)	Percentage
Room Revenues	435.84	75.62%	122.95	74.94%
Food & Beverage	117.52	20.39%	36.46	22.22%

Other Service Charges	16.56	2.87%	4.05	2.47%
Total Operating Revenue	569.92	98.88%	163.46	99.63%
Other Income	6.41	1.11%	0.60	0.37%
Total	576.33	100 %	164.06	100%

The following table illustrates the breakup of revenue earned by different hotels.

Hotel	Room Revenue (Rs mn)	Food & Beverage Revenue (Rs mn)	Other Service Charges (Rs mn)	Total
Hotel Royal Orchid	238.77	62.41	8.94	310.12
Royal Orchid Central	147.39	29.28	5.32	181.99
Royal Orchid Harsha	41.76	21.22	2.02	65.00
Royal Orchid Metropole	7.92	4.61	0.28	12.81
Total	435.84	117.52	16.56	569.92

Our primary focus is on business customers and our different properties enable us to cater to senior, middle and junior management of various corporates. Airline crew is also an important customer category for us and we enter into periodic tie-ups with different airlines for providing accommodation to their crew.

Our primary competitive strengths are as under :

- We offer a strong value proposition for our customers staying at our hotels
- A low set up cost for developing our properties which enables us to have a lower pay back period
- Presence across different price categories of hotels gives us access to a wide customer base
- All our existing properties are located in prime locations in Bangalore and Mysore with easy access to airport, railway station and main shopping destinations
- Strong management team and motivated and efficient workforce
- Easy access to a talented pool of human resources
- Presence of popular food and beverage outlets

We aim to become one of the largest hospitality companies in India over the next few years. In the quest for growth, we have laid down a strategy which would enable us to achieve its stated growth objectives:

- Focus on business clientele.
- Combination of ownership and asset light strategy.
- Expansion of presence to other major cities.
- Focus on stand alone profitability of each individual hotel.
- Further expansion through acquisition and greenfield ventures.

THE ISSUE

Equity Shares to be issued	6,820,000 Equity Shares
Of which:	
QIB Portion ⁽¹⁾	Up to 3,410,000 Equity Shares (allocation on a proportionate basis)
Of which:	
Reservation for Mutual Funds	170,500 Equity Shares (allocation on proportionate basis)
Balance for all QIBs including Mutual Funds	3,239,500 Equity Shares (allocation on proportionate basis)
Non Institutional Portion	At least 1,023,000 Equity Shares (allocation on a proportionate basis)
Retail Portion	At least 2,387,000 Equity Shares (allocation on a proportionate basis)
Equity Shares outstanding prior to the Issue	20,413,965 Equity Shares
Equity Shares outstanding after the Issue	27,233,965 Equity Shares
Objects of the Issue	Please see the section entitled “Objects of the Offer” on page 18 of this Draft Red Herring Prospectus.

⁽¹⁾ As per recent amendments to the SEBI Guidelines, allocation to QIBs is proportionate as per the terms of this Draft Red Herring Prospectus. 5% of the QIB Portion shall be available for allocation to Mutual Funds. Mutual Funds participating in the 5% reservation in the QIB Portion will also be eligible for allocation in the remaining QIB Portion.

SUMMARY FINANCIAL INFORMATION

The tables sets forth selected financial information of our Company derived from its audited financial statements as at June 30, 2005, March 31, 2005, March 31, 2004, March 31, 2003, March 31, 2002 and March 31, 2001 all prepared in accordance with Indian GAAP, the Companies Act and SEBI Guidelines and as described in the Auditor's report of M/s Walker, Chandiok & Co, Chartered Accountants included in the section titled "Financial Statements" on page 91 of this Draft Red Herring Prospectus and should be read in conjunction with those financial statements and the notes thereto. For further discussion on our financial statements, please see "Management Discussion and Analysis" on page 162 and "Our Business" on page 48 of this Draft Red Herring Prospectus.

STATEMENT OF CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES, AS RESTATED.

(Amounts in Rs millions)

	<i>June 30,</i>	<i>March 31,</i>				
	<i>2005</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Fixed Assets						
Gross block	323.70	320.47	218.40	207.44	204.02	151.90
Less: Accumulated Depreciation	57.10	52.85	31.63	20.48	11.07	1.47
Net Block	266.60	267.62	186.77	186.96	192.95	150.43
Capital Work in Progress	135.47	101.75	48.32	16.32	-	-
Net Block after adjustment for Revaluation Reserve	402.07	369.37	235.09	203.28	192.95	150.43
Investments	0.03	0.03	0.12	0.12	0.12	0.09
Current Assets, Loans and Advances						
Inventories	7.20	5.42	3.91	3.07	4.23	0.02
Sundry Debtors	37.90	28.12	22.13	12.89	5.96	0.18
Cash and Bank Balances	78.96	68.81	74.66	8.68	2.92	39.27
Unbilled revenue	5.50	3.55	4.41	0.63	0.21	-
Loans and Advances	112.06	120.84	99.78	80.21	64.23	64.19
Deferred tax asset, net	0	-	-	12.14	14.06	2.80
	241.62	226.74	204.89	117.62	91.61	106.46
Liabilities and Provisions						
Secured Loans	201.78	203.79	215.21	193.56	182.85	150.00
Unsecured Loans	1.28	1.28	7.00	7.54	7.04	8.12
Current Liabilities and Provisions	84.85	82.58	77.32	42.64	19.90	5.31
Deferred Tax Liability, net	25.69	26.50	8.60	-	-	-
	313.60	314.15	308.13	243.74	209.79	163.43
Net Worth	330.12	281.99	131.97	77.28	74.89	93.55
Represented by:						
Share Capital	96.95	96.95	91.23	91.23	91.23	91.23
Reserves/(Accumulated Losses)	204.08	160.2	30.34	(13.85)	(16.23)	2.44
Minority interest	29.09	24.84	10.50	-	-	-
	330.12	281.99	132.07	77.38	75.00	93.67
Misc. Expenditure to the extent not written off or adjusted	-	-	0.10	0.10	0.11	0.12
Net Worth (F-G)	330.12	281.99	131.97	77.28	74.89	93.55

CONSOLIDATED RESTATED PROFIT AND LOSS ACCOUNT, AS RESTATED

(Amounts in Rs millions)

Particulars	Quarter ended June 30,	Year Ended March 31				
	2005	2005	2004	2003	2002	2001
Income						
Sales:						
Room revenues	122.95	435.84	230.90	71.24	26.90	0.01
Food and beverages	36.46	117.52	102.75	61.63	25.60	0.16
Other service charges	4.05	16.56	16.45	12.33	3.43	0.00
Other income	2.39	11.90	9.10	5.87	0.55	0.02
Total income	165.85	581.82	359.20	151.07	56.48	0.19
Expenditure						
Food and beverages consumed	11.00	37.22	36.32	18.28	9.57	0.10
Employee costs	16.03	49.29	35.07	18.29	8.85	0.06
Other operating expenses	37.69	138.86	104.72	35.34	12.96	0.00
General and administrative expenses	27.62	94.96	56.45	26.07	14.36	0.07
Preliminary expenses written off	0	0.10	0.10	0.01	0.01	0.00
Total expenditure	92.34	320.43	232.66	98.00	45.75	0.23
Profit/(loss) Before Depreciation, Interest and Tax	73.51					
		261.39	126.54	53.07	10.73	(0.04)
Depreciation	4.24	22.30	19.29	9.43	6.59	0.16
Interest & Finance Charges	3.89	24.80	29.61	36.31	27.74	0.01
Profit /(loss)before tax, change in accounting policy and prior period items	65.38					
		214.29	77.64	7.33	(23.60)	(0.21)
Change in accounting policy	-	29.50	(25.60)	-	-	-
Prior period Expenses	-	(9.00)	-	-	-	-
Profit /(loss)before tax and minority interest	65.38	234.79	52.04	7.33	(23.60)	(0.21)
Current tax	(16.37)	(53.50)	(11.50)	(0.20)	-	-
Deferred tax	0.79	(20.00)	(6.50)	-	-	-
Provision for income tax written back		0.80	-	-	-	-
Net profit /(loss) before minority interest	49.80	162.09	34.04	7.13	(23.60)	(0.21)
Minority interest	(4.11)	(14.40)	(7.30)	-	-	-
Net Profit/(loss) before adjustments	45.69	147.69	26.74	7.13	(23.60)	(0.21)
Adjustments						
Increase/(decrease) in net profits						
<u>Impact of change in accounting policies</u>						
Depreciation	-	(29.50)	33.70	(0.02)	(3.01)	(1.30)
<i>(refer Note 2(a) in Annexure 4)</i>						
Deferred taxes	-	2.10	(14.20)	(1.92)	11.25	2.35
<i>(refer Note 2(b) in Annexure 4)</i>						
<u>Impact of items of prior years</u>						
Prior period items	-	7.88	(4.44)	(1.02)	(1.11)	(1.31)
<i>(refer Note 3(a) in Annexure 4)</i>						
Provision for Gratuity	-	1.12	0.70	(0.27)	(0.68)	(0.78)
<i>(refer Note 3(b) in Annexure 4)</i>						
Excess provisions written back	-	(4.69)	0.80	-	-	0.50
<i>(refer Note 3(c) in Annexure 4)</i>						
Excess tax provision written back	-	(0.80)	0.80	-	-	-
<i>(refer Note 3(c) in Annexure 4)</i>						
<u>Other adjustments</u>						
Accrual for property taxes	(1.79)	4.27	(0.62)	(0.62)	(0.62)	(0.62)
<i>(refer Note 4(a) in Annexure 4)</i>						
Accrual for Employee State Insurance dues	-	1.80	-	(0.90)	(0.90)	-
<i>(refer Note 4(b) in Annexure 4)</i>						

Total Difference due to adjustments	(1.79)	(17.82)	16.74	(4.75)	4.93	(1.16)
Net Profits as restated	43.90	129.87	43.48	2.38	(18.67)	(1.37)

GENERAL INFORMATION

Registered Office of the Company:

Royal Orchid Hotels Limited
Royal Orchid Harsha, No. 11, Park Road
Bangalore – 560 051
Karnataka

Registration Number of the Company: 087392

Regional Registrar of Companies Office:

Registrar of Companies, Karnataka
2nd Floor, 'E' Wing,
Kendriya Sadan
Koramangala
Bangalore 560 034

Present Board of Directors:

Name and Designation
Chander K Baljee – <i>Chairman and Managing Director</i>
Sunil Sikka – <i>Director</i>
Naresh K Malhotra – <i>Independent Director</i>
Jaithirth Rao – <i>Independent Director</i>
R.V.S. Rao – <i>Independent Director</i>

For more details regarding our Directors please refer to section titled “Our Management” on page 71 of this Draft Red Herring Prospectus.

Company Secretary and Compliance Officer:

Mr. G. Tirupathi Rao

Royal Orchid Hotels Limited
No. 11, Park Road
Bangalore – 560 051
Karnataka
Tel : (91 80) 2558 4242
Fax : (91 80) 2559 4596
Email : gtrao@baljeehotels.com

Investors can contact the Compliance Officer in case of any pre-Issue or post-Issue related problems such as non-receipt of letters of allotment, credit of allotted shares in the respective beneficiary account, refund orders etc.

Legal Counsel to the Issue:**ALMT Legal**

Advocates & Solicitors,
2, Lavelle Road,
Bangalore – 560 001.
Tel : (91 80) 5112 2568
Fax: (91 80) 5112 2569
Email : bangalore@almtlegal.com

Book Running Lead Managers:**ICICI Securities Limited**

ICICI Centre
H.T. Parekh Marg, Churchgate
Mumbai - 400 020.

Tel: (91 22) 2288 2460
Fax: (91 22) 2282 6580
E-mail: rohl_ipo@ isec ltd.com
Website: www.iseconline.com
Contact Person: Hari Kishan Movva

SBI Capital Markets Limited

202, Maker Tower 'E',
Cuffe parade,
Mumbai – 400 005.
Tel: (91 22) 2218 9166
Fax: (91 22) 2218 8332
E-mail: rohl@sbicaps.com
Website: www.sbicaps.com
Contact Person: Abhishek Jain

Syndicate Member:

ICICI Brokerage Services Limited

ICICI Centre
H.T. Parekh Marg, Churchgate
Mumbai - 400 020.
Tel: (91 22) 2288 2460
Fax: (91 22) 2282 6580
E-mail: rohl_ipo@ isec ltd.com
Website: www.iseconline.com
Contact Person: Anil Mokashi

Financial Advisors to the Company

Allegro Capital Advisors Private Limited

'C' Block, Silicon Terraces
30/1 Hosur Main Road
Koramangala
Bangalore - 560 095
Tel : (91 80) 5121 6770
Fax : (91 80) 5121 6785

Registrar to the Issue

MCS Limited

Sri Venkatesh Bhavan,
Plot No. 27, Road No.11, M.I.D.C.
Andheri (East),
Mumbai - 400 093
Tel: (91 22) 2820 1785
Fax: (91 22) 2820 1783
Email : royalorchid@mcsind.com
Website: www.mcsind.com
Contact Person: Shashikant Kadam

Bankers to the Company

State Bank of Hyderabad

Sheriff House, 1st Floor
No. 85, Richmond Road
Bangalore 560 025
Tel: (91 80) 2222 0252
Fax: (91 80) 2227 1482

ICICI Bank Limited
ICICI Bank Towers
No. 1, Commissariat Road
Bangalore 560 025
Tel: (91 80) 5129 6000
Fax: (91 80) 5112 4611

UTI Bank Limited
No. 9, M. G. Road
Bangalore 560 001
Tel: (91 80) 2555 9555
Fax: (91 80) 2555 9444

Oriental Bank of Commerce
Landmark, No 21/15
M G Road
Bangalore 560 001
Tel: (91 80) 2559 6625
Fax: (91 80) 2559 6624

Auditors to the Company

Walker, Chandiok & Co.
L 41 Connaught Circus
New Delhi 110001
Tel : (91 11) 2341 7798
Fax : (91 11) 2341 8512
Email: ajh@gt-india.com

Escrow Collection Banks / Bankers to the Issue

[•]

Statement of Inter Se Allocation of Responsibilities for the Issue

The following table sets forth the responsibility of the BRLMs:

	Particulars	Responsibility	Coordinator
1.	Capital structuring with the relative components and formalities such as type of instruments etc.	I-Sec, SBI Caps	I-Sec
2.	Due diligence of the Company's operations/ management/ business plans/ legal etc. Drafting and design of the Red Herring Prospectus and of statutory advertisement including memorandum containing salient features of the Prospectus. The BRLMs shall ensure compliance with stipulated requirements and completion of prescribed formalities with the Stock Exchanges, RoC and SEBI including finalization of Prospectus and RoC filing of the same.	I-Sec, SBI Caps	I-Sec
3.	Drafting and approval of all publicity material other than statutory advertisement as mentioned in (2) above including corporate advertisement, brochure, roadshow presentations, FAQs, corporate films etc.	I-Sec, SBI Caps	I-Sec
4.	Appointment of other intermediaries viz. Registrar, Printers, Advertising Agency and Bankers to the Issue.	I-Sec, SBI Caps	SBI Caps
5.	Institutional Marketing of the Issue, which will cover, <i>inter alia</i> , Finalize the list and division of investors for one to one meetings; and Finalize roadshow schedule and investor meeting schedules	I-Sec, SBI Caps	SBI Caps
6.	Non-Institutional and Retail Marketing of the Issue, which will cover, <i>inter alia</i> , Formulating marketing strategies, preparation of publicity budget; Finalise Media & PR strategy; Finalise centres for	I-Sec, SBI Caps	SBI Caps

Particulars		Responsibility	Coordinator
	holding conferences for brokers etc.; Finalise collection centres; and Follow-up on distribution of publicity and issue material including form, prospectus and deciding on the quantum of the Issue material.		
7.	Deciding pricing in consultation with the Company	I-Sec, SBI Caps	SBI Caps
8.	The post bidding activities including management of escrow accounts, coordinate allocation, intimation of allocation and dispatch of refunds to Bidders etc. The post issue activities will involve essential follow up steps, which include the finalisation of listing of instruments and dispatch of certificates and demat delivery of shares, with the various agencies connected with the work such as the Registrar to the Issue and Bankers to the Issue and the bank handling refund business. The merchant banker shall be responsible for ensuring that these agencies fulfil their functions and enable it to discharge this responsibility through suitable agreements with the Company.	I-Sec, SBI Caps	SBI Caps

The selection of various agencies like the Bankers to the Issue, Escrow Collection Bank(s), Brokers, Advertising Agencies, etc. will be finalized by the Company in consultation with the BRLM(s) in terms of the inter-se allocation of responsibilities. Even if many of these activities will be handled by other intermediaries, the designated BRLMs shall be responsible for ensuring that these agencies fulfill their functions and enable it to discharge this responsibility through suitable agreements with the Company.

Credit Rating:

As the Issue is of equity shares, credit rating is not required.

Trustees:

As the Issue is of equity shares, the appointment of Trustees is not required.

Project Appraisal Details

The project has not been appraised.

Book Building Process:

Book building refers to the process of collection of Bids, on the basis of the Draft Red Herring Prospectus within the Price Band. The Issue Price is fixed after the Bid Closing Date/Issue Closing Date.

The principal parties involved in the Book Building Process are:

- The Company;
- Book Running Lead Managers;
- Syndicate Member who is an intermediary registered with SEBI or registered as brokers with BSE/NSE and eligible to act as Underwriters. Syndicate Member is appointed by the BRLMs;
- Escrow Collection Bank(s); and
- Registrar to the Issue.

The SEBI Guidelines have permitted an issue of securities to the public through the 100% Book Building Process, wherein up to 50% of the Issue shall be allocated to QIBs on a proportionate basis. Out of the portion available for allocation to the QIBs, 5% shall be allocated proportionately to mutual funds. Mutual fund applicants shall also be eligible for proportionate allocation under the balance available for the QIBs. Further, not less than 15% of the Issue shall be available for allotment on a proportionate basis to Non Institutional Bidders and not less than 35% of the Issue shall be available for allotment on a proportionate basis to Retail Individual Bidders, subject to valid Bids being received at or above the Issue Price. We will comply with the SEBI Guidelines for this Issue. In this regard, we have appointed the BRLMs to manage the Issue and to procure subscriptions to the Issue.

Pursuant to amendments to the SEBI Guidelines, QIB Bidders are not allowed to withdraw their Bid(s) after the Bid Closing Date/Issue Closing Date and for further details see the section titled “Terms of the Issue” on page 200 of this Draft Red Herring Prospectus.

The process of Book Building under SEBI Guidelines is relatively new and investors are advised to make their own judgment about investment through this process prior to making a Bid or Application in the Issue.

Illustration of Book Building and Price Discovery Process *(Investors should note that this example is solely for illustrative purposes and is not specific to the Issue)*

Bidders can bid at any price within the price band. For instance, assume a price band of Rs. 20 to Rs. 24 per share, issue size of 3,000 equity shares and receipt of five bids from bidders, details of which are shown in the table below. A graphical representation of the consolidated demand and price would be made available at the bidding centres during the bidding period. The illustrative book as shown below shows the demand for the shares of the company at various prices and is collated from bids from various investors.

Bid Quantity	Bid Price (Rs.)	Cumulative Quantity	Subscription
500	24	500	16.67%
1000	23	1,500	50.00%
1500	22	3,000	100.00%
2000	21	5,000	166.67%
2500	20	7,500	250.00%

The price discovery is a function of demand at various prices. The highest price at which the issuer is able to issue the desired number of shares is the price at which the book cuts off, i.e., Rs. 22 in the above example. The issuer, in consultation with the book running lead managers, will finalise the issue price at or below such cut off price, i.e., at or below Rs. 22. All bids at or above this issue price and cut-off bids are valid bids and are considered for allocation in the respective categories.

Steps to be taken for bidding:

- Check eligibility for bidding, see the section titled “Issue Procedure-Who Can Bid?” on page 205 of this Draft Red Herring Prospectus;
- Ensure that the Bidder has a demat account; and
- Ensure that the Bid cum Application Form is duly completed as per instructions given in this Draft Red Herring Prospectus and in the Bid cum Application Form.

Underwriting Agreement:

After the determination of the Issue Price and allocation of our Equity Shares but prior to filing of the Prospectus with the RoC, the Company will enter into an Underwriting Agreement with the Underwriters for the Equity Shares proposed to be offered through this Issue. It is proposed that pursuant to the terms of the Underwriting Agreement, the BRLMs shall be responsible for bringing in the amount devolved in the event that its Syndicate Member does not fulfill its underwriting obligations.

The Underwriters have indicated their intention to underwrite the following number of Equity Shares:

(This portion has been intentionally left blank and will be filled in before filing of the Prospectus with the RoC)

Name and Address of the Underwriters	Indicative Number of Equity Shares to be Underwritten	Amount Underwritten (Rs. million)
ICICI Securities Limited ICICI Centre H.T. Parekh Marg, Churchgate Mumbai 400 020.	[•]	[•]
SBI Capital Markets Limited 202, Maker Tower ‘E’,	[•]	[•]

Cuffe parade, Mumbai – 400 005.		
ICICI Brokerage Services Limited ICICI Centre H.T. Parekh Marg, Churchgate Mumbai 400 020.	[•]	[•]

The above-mentioned amount is indicative underwriting and this would be finalized after pricing and actual allocation. The above Underwriting Agreement is dated [•].

In the opinion of the Board of Directors (based on a certificate given by the Underwriters), the resources of all the above mentioned Underwriters are sufficient to enable them to discharge their respective underwriting obligations in full. All the above-mentioned Underwriters are registered with SEBI under Section 12(1) of the Securities and Exchange Board of India Act, 1992 or registered as brokers with the Stock Exchange(s).

Allocation among Underwriters may not necessarily be in proportion to their underwriting commitments. Notwithstanding the above table, the Underwriters shall be severally responsible for ensuring payment with respect to Equity Shares allocated to investors procured by them. In the event of any default, the respective Underwriter in addition to other obligations to be defined in the Underwriting Agreement will also be required to procure/subscribe to the extent of the defaulted amount.

CAPITAL STRUCTURE

<i>As of November 3, 2005</i>	Aggregate Value at nominal value (Rs.)	Aggregate Value at Issue Price (Rs.)
A) AUTHORISED 30,000,000 Equity Shares of Rs. 10 each	300,000,000	
B) ISSUED, SUBSCRIBED AND PAID UP EQUITY SHARE CAPITAL 20,413,965 Equity Shares of Rs. 10 each	204,139,650	
C) PRESENT ISSUE IN TERMS OF THIS DRAFT RED HERRING PROSPECTUS 6,820,000 Equity Shares of Rs. 10 each fully paid up*	68,200,000	[•]
D) EQUITY CAPITAL AFTER THE ISSUE 27,233,965 Equity Shares of Rs. 10 each fully paid up shares	272,339,650	[•]
E) SHARE PREMIUM ACCOUNT Before the Issue	145,009,600	
After the Issue		[•]

* The Issue in terms of this Draft Red Herring Prospectus has been authorized pursuant to a resolution passed at the general meeting of our shareholders held on September 28, 2005 at Bangalore

Notes to Capital Structure

1. Share Capital history of the Company

Date of allotment of the Equity Shares	No. of Equity Shares	Face Value (Rs.)	Issue Price (Rs.)	Nature of Payment	Reasons for allotment	Cumulative Paid-up Capital (Rs.)	Cumulative Securities Premium Account (Rs.)
January 3, 1986	70	10	10	Cash	Subscription to Memorandum	700	Nil
August 8, 1986	77,800	10	10	Cash	Further issue	778,700	Nil
June 3, 1987	6,290	10	10	Cash	Further issue	841,600	Nil
July 17, 1988	141,000	10	10	Cash	Further issue	2,251,600	Nil
July 19, 1999	8,897,910	10	10	Cash	Further issue	91,230,700	Nil
March 14, 2005	571,900	10	10	Cash	Further issue	96,949,700	Nil
July 18, 2005	12,500	10	200	Cash	Further issue	97,074,700	2,375,000
August 27, 2005	10,000	10	200	Cash	Further issue	97,174,700	4,275,000
August 31, 2005	2500	10	200	Cash	Further issue	97,199,700	4,750,000
September 28, 2005	9,717,470	10	NA	Bonus	Bonus (1:1)	194,349,400	4,750,000
October 21, 2005	974,025	10	154	Cash	Further issue	204,139,650	145,009,600

2. Promoters Contributions and Lock-In

The details of promoters contribution and period of lock-in will be as under :

Name of the Promoter	Date of Allotment / Acquisition	Date when made fully paid-up	Consider - ation (Cash, bonus, kind, etc.)	No. of Equity Shares	Face Value (Rs.)	Issue / Acquisition Price (Rs.)	% of pre-issue paid-up capital	% of post-issue paid up capital	Lock in Period (Years)
Chander K. Baljee	September 28, 2005	September 28, 2005	Bonus	5,446,800	10	N.A.	26.68%	20.00%	3 years

The Equity Shares will be locked-in for the periods specified above from the date of allotment of Equity Shares in this Issue. The Equity Shares to be locked-in for a period of three years have been computed as 20% of our equity capital after the Issue. The Promoter vide letter dated October 28, 2005 has given his consent for lock-in as stated above. The Promoter's contribution has been brought in to the extent of not less than the specified minimum lot.

In terms of clause 4.14.1 of the SEBI Guidelines, in addition to 20% of post-Issue shareholding of the Company held by the Promoters for three years, as specified above, the entire pre-Issue issued equity share capital of the Company less the number of Equity Shares for which transfer is made under the Issue will be locked in for a period of one year from the date of Allotment in this Issue.

Further, in terms of Clause 4.14.2 of the SEBI Guidelines, the requirements of Clause 4.14.1 of the SEBI Guidelines shall not be applicable to FVCIs registered with SEBI. Consequently, 1,623,375 Equity Shares representing 7.95% and 5.96% of the pre-Issue and post-Issue equity share capital held by WestBridge Ventures II Investment Holdings, an FVCI, are exempt from any SEBI statutory lock-in. The total number of Equity Shares which are locked in for one year is 13,343,790.

In terms of Clause 4.16.1(a) of the SEBI Guidelines, the Equity Shares held by persons other than the Promoters prior to the Issue may be transferred to any other person holding the Equity Shares which are locked-in as per Clause 4.14 of the SEBI Guidelines, subject to continuation of the lock-in in the hands of the transferees for the remaining period and compliance with SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, as applicable. Further, in terms of clause 4.16(b) of the SEBI Guidelines, Equity Shares held by the Promoters may be transferred to and among the Promoter group or to a new promoter or persons in control of the Company subject to continuation of the lock-in in the hands of the transferees for the remaining period and compliance with SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 1997, as applicable.

Locked-in Equity Shares held by the Promoters can be pledged with banks or financial institutions as collateral security for loans granted by such banks or financial institutions.

The following Equity Shares have been sold or acquired by our Promoters, during the period of six months preceeding the date on which the Draft Red Herring Prospectus is filed with SEBI.

Transferor	Transferee	Date on which Equity Shares purchased or sold	Number of Equity Shares	Par value (Rs.)	Nature of payment	Purchase/ Sale Price (Rs.)
Sara Zacharia	Keshav Baljee	June 18, 2005	878,500	10	Gift Deed	--
Chander K. Baljee	Naresh K. Malhotra	August 27, 2005	2,500	10	Cash	10
Chander K. Baljee	Westbridge Ventures II Investment Holdings	October 21, 2005	649,350	10	Cash	154
Keshav Baljee	Chander K. Baljee	October 21, 2005	1,597,000	10	Gift Deed	--

The maximum transfer price is Rs. 154 per Equity Share and the minimum transfer price is Rs. 10 per Equity Share except for the shares transferred through gift deed.

The following Directors hold Equity Shares in their individual capacity, as of the date of filing this Draft Red Herring Prospectus:

Sl	Director	No. of Shares Held
1	Chander K. Baljee	13,181,706
2	Sunil Sikka	7,000
3	Naresh K. Malhotra	25,002
4	Jaithirth Rao	25,000
5	Mr. R.V.S. Rao	1,000

3. Equity Shares held by top ten shareholders:
Our top ten shareholders and the Equity Shares held by them as at November 3, 2005 the date of filing the Draft Red Herring Prospectus

Sl.No.	Name	Face value	No.of shares
1	Mr. Chander K. Baljee	Rs.10/- each	13,181,706
2	Baljees Hotels & Real Estates Pvt. Ltd.	Rs.10/- each	4,898,616
3	WestBridge Ventures II Investment Holdings	Rs.10/- each	1,623,375
4	Mrs. Sunita Baljee	Rs.10/- each	226,260
5	Mr. Arjun Baljee	Rs.10/- each	160,000
6	Mr. Keshav Baljee	Rs.10/- each	160,000
7	Mr. Naresh K. Malhotra	Rs.10/- each	25,002
8	Mr. Jaithirth Rao	Rs.10/- each	25,000
9	Mr. Sunil Sikka	Rs.10/- each	7,000
10	Mrs. Indira Sikka	Rs.10/- each	4,040

Our top ten shareholders and the Equity Shares held by them ten days prior to the date of filing (October 24, 2005) the Draft Red Herring Prospectus with SEBI are as follows:

Sl.No.	Name	Face value	No.of shares
1	Mr. Chander K. Baljee	Rs.10/- each	13,181,706
2	Baljees Hotels & Real Estates Pvt. Ltd.	Rs.10/- each	4,898,616
3	WestBridge Ventures II Investment Holdings	Rs.10/- each	1,623,375
4	Mrs. Sunita Baljee	Rs.10/- each	226,260
5	Mr. Arjun Baljee	Rs.10/- each	160,000
6	Mr. Keshav Baljee	Rs.10/- each	160,000
7	Mr. Naresh K. Malhotra	Rs.10/- each	25,002
8	Mr. Jaithirth Rao	Rs.10/- each	25,000
9	Mr. Sunil Sikka	Rs.10/- each	7,000
10	Mrs. Indira Sikka	Rs.10/- each	4,040

Our top ten shareholders and the Equity Shares held by them two years prior to filing (November 3, 2003) of this Draft Red Herring Prospectus:

Sl.No.	Name	Face value	No.of shares
1	Mr. Chander K. Baljee	Rs.10/- each	6,115,528
2	Baljee Hotels & Real Estates Pvt. Ltd.	Rs.10/- each	2,449,308
3	Mrs. Sunita Baljee	Rs.10/- each	113,130
4	Mr. Arjun Baljee	Rs.10/- each	80,000
5	Mrs. Sara Zacharia	Rs.10/- each	306,600

6	Mr. D.R.Sikka	Rs.10/- each	2,010
7	Mrs. George Padippara Chacko	Rs.10/- each	2,000
8	Mr. Deepak Narang	Rs.10/- each	2,000
9	Mrs. Indira Sikka	Rs.10/- each	1,010
10	Mrs. Sangita Sikka	Rs.10/- each	1,010

4. Details of increase in Authorised Share Capital of the Company

The authorized share capital of the Company has been increased thrice since incorporation. At the time of incorporation of the Company, the authorized share capital was Rs. 10 million. By shareholders resolution dated October 18, 1997 it was increased to Rs. 40 million. On July 14, 1999 the members of the Company accorded consent for increase of authorized share capital to Rs. 120 million. Subsequently, the authorized share capital of our Company has been increased to Rs. 300 million by shareholders resolution dated August 22, 2005.

There are no outstanding warrants, options or rights to convert debentures, loans or other financial instruments into our Equity Shares.

5. Shareholding pattern as of November 3, 2005

The table below presents our shareholding pattern before the proposed Issue and as adjusted for the Issue

Shareholder Category	Equity Shares owned prior to the Issue		Equity Shares owned after the Issue	
	Number	%	Number	%
Promoters				
Chander K. Baljee	13,181,706	64.57%	13,181,706	48.40%
Sunita Baljee	226,260	1.11%	226,260	0.83%
Arjun Baljee	160,000	0.78%	160,000	0.59%
Keshav Baljee	160,000	0.78%	160,000	0.59%
Baljees Hotels and Real Estates Private Limited	4,898,616	24.00%	4,898,616	17.99%
Sub Total (A)	18,626,582	91.24%	18,626,582	68.39%
Promoter Group				
C. Baljee	40	0.00%	40	0.00%
Sunil Sikka	7,000	0.03%	7,000	0.03%
Indira Sikka	4,040	0.02%	4,040	0.01%
Sangita Sikka	2,020	0.01%	2,020	0.01%
Sub Total (B)	13,100	0.06%	13,100	0.05%
Total Promoter and Promoter Group holdings (C=A+B)	18,639,682	91.31%	18,639,682	68.44%
Others (D)				
WestBridge Ventures II Investment Holdings	1,623,375	7.95%	1,623,375	5.96%
Others	150,908	0.74%	150,908	0.55%
Sub Total (D)	1,774,283	8.69%	1,774,283	6.51%
Total pre Issue share capital (E=C+D)	20,413,965	100%	20,413,965	74.96%
Public Issue (F)			6,820,000	25.04%
Total post Issue share capital (G=E+F)			27,233,965	100%

7. Buyback and Standby Arrangements:

Neither we nor our Directors or the Promoters, their respective directors or the BRLMs have entered into any buyback and/or standby arrangements for the purchase of our Equity Shares from any person.

8. The Company has not raised any bridge loan against the proceeds of the Issue. For details on use of proceeds, see the section titled “Objects of the Issue” on page 17 of this Draft Red Herring Prospectus.
9. The Issue is being made through a 100% Book Building Process wherein up to 50% of the Issue will be allocated to Qualified Institutional Buyers (“QIBs”) on a proportionate basis. Out of the portion available for allocation to the QIBs, 5% will be available for allocation to Mutual Funds. Mutual Fund applicants shall also be eligible for proportionate allocation under the balance available for the QIBs. Further, at least 15% of the Issue will be available for allocation on a proportionate basis to Non-Institutional Bidders and at least 35% of the Issue will be available for allocation on a proportionate basis to Retail Individual Bidders, subject to valid bids being received at or above the Issue Price.
10. A Bidder cannot make a Bid for more than the number of Equity Shares offered in this Issue, subject to the maximum limit of investment prescribed under relevant laws applicable to each category of investor.
11. An oversubscription to the extent of 10% of the Issue can be retained for the purpose of rounding off to the nearest multiple of minimum allotment lot while finalizing the basis of allotment.
12. There would be no further issue of capital whether by way of issue of bonus shares, preferential allotment, rights issue or in any other manner during the period commencing from submission of the Draft Red Herring Prospectus with SEBI until the equity shares offered hereby have been listed.
13. The Company presently does not have any intention or proposal to alter its capital structure for a period of six months commencing from the date of opening of this Issue, by way of split/consolidation of the denomination of Equity Shares or further issue of Equity Shares or securities convertible into Equity Shares, whether on a preferential basis or otherwise. However, during such period or at a later date, we may constitute an employee stock option plan or issue equity shares or securities linked to equity shares to finance an acquisition, merger or joint venture by us or as consideration for such acquisition, merger or joint venture, or for regulatory compliance or such other scheme of arrangement if an opportunity of such nature is determined by the Board to be in the interest of the Company.
14. The Company has not issued any Equity Shares out of revaluation reserves or for consideration other than cash except for the bonus equity shares issued out of free reserves.
15. There will be only one denomination of the Equity Shares of the Company unless otherwise permitted by law and the Company shall comply with such disclosure and accounting norms as may be specified by SEBI from time to time.
16. We have 146 members as of November 3, 2005.

Classes of Shares

Except as stated elsewhere in the Draft Red Herring Prospectus there are no other class of shares.

OBJECTS OF THE ISSUE

The objects of the Issue are to raise capital for financing our expansion plans, meeting the expenses of this Issue and creating a public trading market for the Equity Shares of the Company by listing them on the stock exchanges.

The net proceeds from the Issue after deducting underwriting Commission and management fees, brokerage; fees to various advisors and all other Issue related expenses are estimated at Rs [●] million. The Issue Amount will be determined based on the Issue Price discovered through the book building process.

The proceeds from the Issue of shares are intended to be deployed for:

1. Capital expenditure for operating hotel in Pune under long-term lease
2. Investing in our subsidiary Royal Orchid Hyderabad Private Limited which would operate a hotel in Hyderabad on a long term lease
3. Purchase of 51% equity capital in Maruti Comforts and Inn Private Limited and further investments for renovation of the hotel property in Bangalore
4. Capital expenditure for modernization and renovation of existing hotel properties in Bangalore
5. Future acquisitions and general corporate purposes
6. Meeting Issue expenses

The other object of the Issue is to get the shares listed on the Stock Exchanges and to provide liquidity to our existing investors.

The main objects clause and objects incidental or ancillary to the main objects clause of the Memorandum of Association of the Company enables the Company to undertake the existing activities and the activities for which the funds are being raised by the Company, through the Issue.

The estimated fund requirement is given below:

Particulars	Amount (Rs. million)
Capital expenditure for operating hotel in Pune under long-term lease	173.40
Investing in our subsidiary Royal Orchid Hyderabad Private Limited which would operate a hotel in Hyderabad on a long term lease	118.66
Purchase of 51% equity stake in Maruti Comforts and Inn Private Limited and further investments for renovation of the property in Bangalore	173.64
Capital expenditure for modernization and renovation of existing hotel properties in Bangalore	296.79
Future acquisitions and general corporate purposes	[●]
Meeting Issue expenses	[●]
Total	[●]

The requirement of funds is proposed to be financed as given below:

Particulars	Amount (Rs. million)
Issue Proceeds	[●]
Internal Accruals	[●]
Total	[●]

1. Capital expenditure for operating hotel in Pune under long term lease

We propose to operate a 100 room hotel in Pune on leasehold basis. The hotel is expected to commence operations in October 2006. The hotel will carry the Royal Orchid Central brand and will cater to business travelers in the premium segment. The hotel would be located at Kalyani Nagar which is about 3.5 km from the airport and about 5 km from the railway station and close to the central business area of Pune.

The Company has entered into a Memorandum of Understanding dated July 2, 2005 with Just Homes Associates, an Association of Persons, for the lease of the fourth, fifth, sixth and seventh floor premises measuring 55,000 Sq. ft. built up area in the proposed Block "A" Marisoft Annexe to be constructed on property located at Sy. No. 15 and others, Vadgaonsheri, Kalyani Nagar, Pune – 411 014 for using the premises for activities necessary for and incidental to carrying on the hotel business. The Company and Just

Homes Associates have agreed that the lease shall be for a period of 10 years (renewable) with a five year lock in period from the date of execution of a definitive lease deed and handing over of the property being developed by the lessors.

As stated above, the building to be leased to the Company would be constructed by Just Homes Associates as per our specifications of drawings and in line with the approved plans of the Pune Municipal Council. The Company is responsible for setting up the furnitures and other equipments required for its use.

The total interest free deposit agreed to be paid by the Company which is equivalent to lease rentals for the premises for a period of 12 months to be paid in the following manner:

- (i) 25% or Rs. Ten lakhs which has been paid upon the execution of the Memorandum of Understanding;
- (ii) 50% upon completion of the structure; and
- (iii) 25% upon handing over the property to the Company as per the agreed terms.

The Company has guaranteed to pay rent of at least Rs. 1,375,000 per month for the first three years and also agreed to an escalation at 15% every three years during the lease period. The lease rental to be paid by the Company shall be the minimum guaranteed rent (as stated above) or a percentage of the net sales (20% for the first year, 22% for the next three years and 25% thereafter) whichever is higher.

Just Homes Associates has the right to terminate the agreement in the event the Company defaults from payment of the lease rentals for a continuous period of three months and further where we fail to rectify the default within a period of one month from the date of receipt of notice from the lessors. The Company has the right to terminate the lease by giving a six months notice in the event of a breach of any of the terms of the contract by the lessors or by giving a three months notice after the lock in period of 5 years.

The details of the capital expenditure expected to be incurred by Royal Orchid Hotels Limited with respect to the Pune property is as follows

Particulars	Rs mn
Room Development Expenditure	64.25
Air Conditioning	6.00
Interior Decoration & Related Accessories	45.20
Kitchen Equipment	7.80
Furniture, Fittings and Equipment	22.92
Landscaping	1.50
Preopening, Sales & Marketing Expenses	9.23
Interest Free Deposit for lease*	16.50
Total Expenditure	173.40

* - An amount of Rs. 1 million has already been paid towards the deposit

The hotel is to have 100 rooms. The cost of developing each room is estimated as under:

Particulars	Rs
Furniture	110,000
Bathroom	57,000
Soft furnishings	30,000
Electronics	258,500
Miscellaneous(Rugs, linen, art etc)	32,000
Infrastructure	155,000
Total	642,500

A description of key constituents of the various heads of expenditure is indicated below:

- *Air Conditioning:* Air conditioning of the public areas like lobbies, corridors, banquet halls etc.
- *Interior Decoration and Related Accessories:* This includes interior decoration of the Business center, back-office, F&B facilities, swimming pool, health club etc.

- *Kitchen equipment:* This includes kitchen equipment and cookery and cutlery for the kitchen
- *Furniture, Fittings and Equipment:* This includes expenditure on power backup, fire-fighting, hardware and software, elevators etc.
- *Landscaping:* Landscaping includes expenditure on redesigning of the lobby and other public areas
- *Pre-opening, sales and marketing expenditure:* This includes expenditure incurred before launch/ re-launch on sales and advertising campaigns and other promotional and public relation expenditure

The building is expected to be completed by the end of March 2006. The schedule of expenditure on the equipment, rooms and interior fittings is given in the table below. The hotel is expected to commence operations in October 2006.

Particulars (Rs Million)	Oct – Dec 2005	Jan – Mar 2006	Apr – Jun 2006	Jul – Sep 2006	Total
Air Conditioning	-	6.00	-	-	6.00
Interior Decoration & Related Accessories	-	9.00	8.40	27.80	45.20
Kitchen Equipment	-	-	7.80	-	7.80
Furniture, Fittings and Equipment	-	6.60	16.32	-	22.92
Landscaping	-	-	-	1.50	1.50
Room Development Expenditure	-	-	64.25	-	64.25
Preopening, Sales & Marketing Expenses	-	-	9.23	-	9.23
Interest Free Deposit for lease	3.88	3.88	3.88	3.88	16.50*
Total Expenditure	3.88	25.48	109.88	33.18	173.40

* The total interest free deposit is Rs. 16.5 million out of which Rs. 1 million has already been paid

The figures in the Company's capital expenditure plans (as given above as well as for the new properties in Hyderabad and Pune and for modernization of the existing properties in Bangalore) are based on the estimates prepared by the Company and examined by the Company's project consultant namely Mahajan & Aibara (Management Consultancy Division) as per their letter dated October 28, 2005. The Company has not as yet taken a decision to finalize the suppliers and contractors for the capital expenditure.

2. Investing in our subsidiary Royal Orchid Hyderabad Private Limited which would operate a hotel in Hyderabad on a long term lease

We have incorporated a subsidiary i.e. Royal Orchid Hyderabad Private Limited vide certificate of incorporation dated September 12, 2005. Royal Orchid Hyderabad Private Limited is proposing to operate a 72 room hotel in Hyderabad on leasehold basis. The hotel is expected to commence operations in October 2006. The hotel will carry the Royal Orchid Central brand and will cater to business travelers in the premium segment. The hotel will be located at Banjara Hills which is one of the prime areas in Hyderabad and is about 6 kilometres from the airport.

The Company has entered into a Memorandum of Understanding dated September 3, 2004 with Mr. Harmahender Singh Bagga with respect to the lease of movable and immovable property situated at Road No.1 Banjara Hills, Hyderabad. The Company has paid an amount of Rs. 1 lakh to the lessor as consideration of the execution of the Memorandum of Understanding. The lessor shall invest Rs. 20 million in furniture and fittings as required by the lessee. This amount will carry an interest of 15% p.a. (payable monthly) and shall be refundable in 3 years.

Pursuant to this Memorandum of Understanding we have entered into an Agreement to Lease dated December 6, 2004 executed by Mr. Ranbir Singh Bagga, Ms. Inderpreet Kaur Bagga, Ms. Devender Kaur Bagga, Mr. Satpal Singh Bagga and Sarbjeet Kaur Bagga in favour of the Company in respect of the property situated at Road No.1. Banjara Hills, Hyderabad. By this agreement, the Company has agreed to take on lease the said property measuring 1449.49 sq. yards along with the building proposed to be built thereon. The parties have agreed that the lessors shall construct the building on the said property and hand over possession of the same to the Company. The said property shall be used for the purposes of running a star hotel. The said Agreement provides that the term of the lease shall be for a period of 25 years from date of execution of a definitive lease deed with a lock in period of 30 months, renewable by execution of a separate lease deed. The lessee may terminate the lease after the expiry of the lock in period by service of notice of not less than 6 months. The parties have agreed that the Base Rent payable shall be computed on the following basis:

- (i) Rs. 80/- per square foot of super built up area and 25% of the common area for the ground floor premises;
- (ii) Rs. 25/- per square foot of super built up area and 30% of the common area for the first, second, third and fourth floor;
- (iii) Rs. 7/- per square foot of super built up area and 25% of the common area for the two basements
- (iv) Rs. 7/- per Sq. ft. for utilization of the service floor and 25% of the common area for a service floor, if any;

It has been further agreed that there shall be an escalation of 12% of the base rent payable every 3 years. It has been agreed that a party may terminate the lease upon breach of any of the terms of the lease and such breach is not rectified after service of 3 months notice. It has been agreed that the lessee shall pay an amount equivalent to 10 months rent as an interest free refundable security deposit. Pursuant to the same, we have paid an amount of Rs. 3 million as an interest free refundable security deposit, the balance of which shall be paid as under:

- (i) 30% of the interest free deposit on completion of civil works,
- (ii) 20% of the interest free deposit on completion of services as agreed upon,
- (iii) Balance to be paid at the time of handing over of premises.

The agreement to lease provides that the Company shall have the right to assign or sublet any portion of the property to third parties connected to the hotel business, subject to the lessors being informed of such assignment or sub letting. It has further been agreed that the lessee will be incorporating another company to take over the lease and operate the hotel. In pursuance of the same we have incorporated Royal Orchid Hyderabad Private Limited. Royal Orchid Hyderabad Private Limited shall be a subsidiary of the Company. 51.00% of the equity share capital of Royal Orchid Hyderabad Private Limited will be held by Royal Orchid Hotels Limited and the balance 49% will be held by Mr. S.K. Agarwal.

In view of the above we have entered into a Deed of Assignment dated September 15, 2005 with Royal Orchid Hyderabad Private Limited and the lessors. Under the said Assignment agreement, we have assigned all our rights and obligations under the Agreement to Lease dated December 6, 2004 in favour of our subsidiary, Royal Orchid Hyderabad Private Limited. The lessors have accepted the assignment and have agreed to be bound by the terms of the said agreement.

The following table illustrates the expenditure expected to be incurred in the renovation of the hotel in Hyderabad. This expenditure shall be incurred by Royal Orchid Hyderabad Private Limited out of equity or debt provided by the Company.

Particulars	Expenditure to be incurred (Rs mn)
Room Development Expenditure	46.26
Air Conditioning	3.60
Interior Decoration & Related Accessories	33.20
Kitchen Equipment	6.00
Furniture, Fittings and Equipment	21.12
Landscaping	1.50
Preopening, Sales & Marketing Expenses	6.98

Total	118.66
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The existing property has 72 rooms. The cost of renovating each room is as given below and the total room development expenditure for 72 rooms is thus expected to be Rs. 46.26 mn.

Particulars	Rs
Furniture	110,000
Bathroom	57,000
Soft furnishings	30,000
Electronics	258,500
Miscellaneous(Rugs, linen, art etc)	32,000
Infrastructure	155,000
Total	642,500

The building is expected to be completed by the end of March 2006. The schedule of expenditure on the equipment, rooms and interior fittings is given in the table below. The hotel is expected to commence operations in October 2006.

Particulars (Rs Million)	Jan – Mar 2006	Apr – Jun 2006	Jul – Sep 2006	Total
Air Conditioning	3.60	-	-	3.60
Interior Decoration & Related Accessories	6.00	22.40	4.80	33.20
Kitchen Equipment	-	6.00	-	6.00
Furniture, Fittings and Equipment	6.60	14.52	-	21.12
Landscaping	-	-	1.50	1.50
Room Development Expenditure	-	46.26	-	46.26
Preopening, Sales & Marketing Expenses	-	6.98	-	6.98
Total Expenditure	16.20	96.16	6.30	118.66

3. Purchase of 51% equity stake in Maruti Comforts and Inn Private Limited and further investments for renovation of the property in Bangalore

We propose to operate a 54 room hotel in Bangalore on lease basis. The hotel is expected to commence operations in October 2006. The hotel will cater to business travelers in the middle to premium segment. This property earlier known as Dominion Club is situated at Allasandra Division, Yelahanka City Municipal Limit, Bangalore North Taluk and is located close to the proposed new airport at Devanahalli in Bangalore.

We have entered into an agreement dated July 23, 2005 with Maruti Comforts & Inn Private Limited and its shareholders Mrs. Beena Jaggi, Mr. Ravi.S.Doddi (Hindu Undivided Family), Ravi.S.Doddi, Senet Cables Private Limited (for the purposes of this Section, referred to as 'Shareholders'). The entire issued and paid up share capital of Maruti Comforts & Inn Private Limited is held by the Shareholders. Maruti Comforts & Inn Private Limited exercises leasehold rights over land and owns the buildings and other structures constructed thereon. The key terms of this agreement are as under:

- The Shareholders, Company and Maruti Comforts & Inn Private Limited shall enter into a share transfer agreement for the transfer of 51% of the share capital of Maruti Comforts & Inn Private Limited.
- The Shareholders shall execute an agreement for transfer of the shares in favour of the Company on receiving a mutually agreed lump sum consideration to be calculated by deducting total loan

outstanding of M/s Maruti Comforts & Inn Private Limited as on the date of the share transfer agreement from the total value of 100% shares of M/s Maruti Comforts & Inn Private Limited i.e., Rs. 135 million. Thus, the amounts of the secured and unsecured loans shall be deducted from Rs.135 million if not repaid as on the date of the Share Transfer Agreement.

- Upon execution of the said Share Transfer Agreement, the Company shall have the right to nominate three persons, and the Shareholders shall have the right to nominate two persons on the board of Maruti Comforts & Inn Private Limited.
- The Company has agreed to pay a sum of Rs.15 million as refundable security deposit. The same has been paid.
- Maruti Comforts & Inn Private Limited and the Shareholders shall deposit the relevant share certificate in escrow to be released in favour of the Company upon signing of the Share Transfer Agreement or refund of the security deposit amount.
- This agreement will be in force till the execution of the Share Transfer Agreement or for a period of 6 months, whichever is earlier.
- The Company shall have an option to terminate the Agreement forthwith if the Shareholders commit breach of any terms of this agreement.

The Company has also entered into a Hotel Management Agreement dated July 23, 2005 with Maruti Comforts and Inn Private Limited by virtue of which we have acquired the exclusive right to manage and operate the hotel and resort.

The agreement is for a term of 20 years with an option to renew the agreement for two further terms of five years each, on mutually agreed terms and conditions.

As consideration, Maruti Comforts and Inn Private Limited has agreed to pay a management fee which is as follows:

- (a) Basic Management Fee: 3% of the total revenue of the hotel;
- (b) Incentive Management Fee: 8% of the gross operating profit of the hotel;
- (c) Any taxes, surcharges or any government levy, including the Service Tax payable on the above fee has been agreed to be paid by Maruti Comforts and Inn Private Limited.

The Parties have agreed that any operating loss incurred shall be borne exclusively by Maruti Comforts and Inn Private Limited and the same shall not be applied against the gross operating profit of the hotel in any succeeding fiscal year for the purpose of determining the Incentive Management Fee payable to the Company.

The parties have agreed that the Company shall be permitted to spend an amount equal to 2% of the gross revenue for the first two years and 3% thereafter, for the purposes of making replacements and renewals of furniture and equipment, including other additions other than those of a capital nature and the same would be reimbursed to the Company. Any expenditure in excess of the above shall require the consent of Maruti Comforts and Inn Private Limited. Further, the parties have agreed that structural repairs or changes to the hotel premises to keep it in good order and condition, would be carried out by Maruti Comforts and Inn Private Limited at its own expense.

The agreement may be terminated by the Company by giving an advance notice of 60 days. The agreement may also be terminated on breach of the terms of the agreement by giving 90 days written notice.

The Company proposes to purchase 51.00% of the equity share capital of Maruti Comforts and Inns Private Limited from the existing shareholders at a cost of Rs. 69 million.

The following table illustrates the estimated capital expenditure to be incurred for renovation of the property. This expenditure shall be incurred by Maruti Comforts and Inns Private Limited out of equity or debt provided by the Company.

Particulars	Expenditure to be incurred (Rs mn)
Share Acquisition	68.85
Room Development Expenditure	25.41
Air Conditioning	3.00
Interior Decoration & Related Accessories	34.30

Kitchen Equipment	6.60
Furniture, Fittings and Equipment	19.32
Landscaping	10.00
Preopening, Sales & Marketing Expenses	6.16
Total Expenditure	173.64

The existing property has 54 rooms. The cost of renovating each room is as given below and the total room development expenditure for 54 rooms is thus expected to be Rs.25.41 mn.

Particulars	Rs
Furniture	110,000
Bathroom	57,000
Soft furnishings	30,000
Electronics	86,500
Miscellaneous(Rugs, linen, art etc)	32,000
Infrastructure	155,000
Total	470,500

The following table illustrates the implementation schedule for setting up operations at the property:

Particulars (Rs Million)	Jan – Mar 2006	Apr – Jun 2006	Total
Air Conditioning	3.00	-	3.00
Interior Decoration & Related Accessories	12.60	21.70	34.30
Kitchen Equipment	-	6.60	6.60
Furniture, Fittings and Equipment	6.00	13.32	19.32
Landscaping	10.00	-	10.00
Room Development Expenditure	25.41	-	25.41
Preopening, Sales & Marketing Expenses		6.16	6.16
Total Expenditure	57.01	47.78	104.79

4. Capital expenditure for modernization and renovation of existing hotel properties in Bangalore

All our properties have to be renovated regularly to ensure that the properties offer the latest in services in both rooms and F&B facilities. This would involve redesign and refurbishing of the existing rooms, F&B facilities, lobbies and other public areas. The cost of renovation and modernization of our properties in Bangalore is indicated below:

Particulars	Expenditure to be incurred (Rs million)		
	Hotel Royal Orchid	Royal Orchid Harsha	Royal Orchid Central
Air Conditioning	2.00	3.00	3.00
Interior Decoration & Related Accessories	30.30	15.46	26.60
Kitchen Equipment	5.40	2.16	3.60
Furniture, Fittings and Equipment	17.16	10.66	17.76
Landscaping	10.00	0.25	0.50

Room Modernization Expenditure	57.83	25.70	48.19
Sales & Marketing Expenses	7.53	3.58	6.11
Total	130.22	60.81	105.76

Expenditure for the renovation of Royal Orchid Central would be incurred by Icon Hospitality Private Limited out of equity or debt provided by the Company.

The schedule of implementation for the renovation of hotels in Bangalore is given below

Particulars (Rs Million)	Jan – Mar 2006	Apr – Jun 2006	Jul – Sep 2006	Total
Air Conditioning	5.00	3.00	-	8.00
Interior Decoration & Related Accessories	35.70	27.68	8.98	72.36
Kitchen Equipment	8.28	-	2.88	11.16
Furniture, Fittings and Equipment	16.92	9.94	18.72	45.58
Landscaping	-	10.00	0.75	10.75
Room Renovation Expenditure	-	131.71	-	131.71
Preopening, Sales & Marketing Expenses			17.21	17.21
Total Expenditure	65.90	182.33	48.54	296.79

5. Future acquisitions and general corporate purposes

Our management in accordance with the policies set up by the Board will have flexibility in applying the balance proceeds of this Issue, for general corporate purposes including future acquisitions and to finance working capital requirements. We seek to further enhance our position in the hotel industry by acquiring hotel properties either through long-term lease or outright purchase. While we have not identified any specific acquisition opportunity our senior management team is continuously identifying and evaluating such opportunities. As on date of this Draft Red Herring Prospectus, the Company has not entered into any letter of intent or definitive commitment for any such acquisitions. The interim use of the balance funds is explained in the paragraph titled “Interim use of funds”.

6. Meeting Issue expenses

The expenses of this Issue include, among others, underwriting and management fees, selling commissions, printing and distribution expenses, legal fees, statutory advertisement expenses and listing fees. The estimated Issue expenses are as follows:

Activity	Amount (Rs million)	Estimated Percentage *
Lead Management, underwriting and selling commission	[●]	[●]
Advertisement and Marketing expenses	[●]	[●]
Printing and stationery	[●]	[●]
Others (Registrars fee, legal fee, listing fee, etc)	[●]	[●]
Total estimated Issue expenses	[●]	[●]

*Will be incorporated after the issue price is finalised

All expenses with respect to the Issue would be borne by the Company.

Interim Use of Funds

The management, in accordance with the policies set up by the Board, will have flexibility in deploying the net proceeds received by us from the Issue. Pending utilization for the purposes described above, we intend to temporarily invest the funds in high quality interest/dividend bearing liquid instruments including money market mutual funds, deposit with banks for necessary duration.

Expenses incurred towards the objects of the Issue

As per the certificate dated October 22, 2005 issued by the Company's auditors, Walker, Chandiok & Co., the utilization of funds toward the objects of the Issue and the source of finance for the same as at September 30, 2005 is given below.

(Amounts in Rupees millions)

UTILISATION OF FUNDS	
Refundable security deposits paid	4.00
Advance towards purchase of shares in Maruti Comfort Inn Private Limited	17.50
SOURCE OF FINANCE	
Internal accruals	21.50

Monitoring of utilisation of funds

The audit committee appointed by the Board will monitor the utilisation of the proceeds of the Issue.

Auditors Report with respect to the proposed acquisition by the Company of 51% of equity share capital of Maruti Comforts and Inn Private Limited

The Board of Directors,
Royal Orchid Hotels Limited
Harsha Hotel
11 Park Road
Bangalore - 560 051
India

Dear Sirs

1. At your request we have examined the annexed financial information of Maruti Comforts and Inn Private Limited ('the Company') for the years ended 31 March, 2005, 2004, 2003, 2002 and 2001, including the notes thereon being the last date to which the accounts of the Company have been made up. This financial information has been prepared by the management of the Company and has been approved by the Board of Directors of Royal Orchid Hotels Limited for the purpose of disclosure in the Offer Document being issued by Royal Orchid Hotels Limited in connection with the Initial Public Offering ('IPO') for the issue of 6,820,000 of its equity shares having a face value of Rs.10 each at an issue price to be arrived at by a book building process (referred to as 'the Issue').
2. This financial information has been prepared in accordance with the requirements of
 - i) Paragraph B (1) of Part II of Schedule II to the Companies Act, 1956 ('the Act');
 - ii) Paragraph 6.10.2.5 of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 ('the SEBI Guidelines') issued by the Securities and Exchange Board of India ('SEBI') on January 19, 2000 in pursuance to Section 11 of the Securities and Exchange Board of India Act, 1992;
3. We report that the Unconsolidated Statements of Assets and Liabilities and Profits and Losses of the Company as at and for the years ended 31 March, 2005, 2004, 2003, 2002 and 2001 are as set out in Annexure 1 and Annexure 2 to this report respectively and are to be read in accordance with the Significant Accounting Policies as appearing in Annexure 3 to this report. No adjustments/restatements or regroupings have been made to these Unconsolidated Statements to ensure consistent application of accounting policies, to ensure recording of prior period items in the appropriate period, to adjust qualifications contained in the audited financial statements of the Company and to separately disclose extra-ordinary items in accordance with the relevant SEBI guidelines applicable to the financial information of Royal Orchid Hotels Limited and its subsidiary.
4. The Unconsolidated Statements of Assets and Liabilities and Profits and Losses as at and for the years ended 31 March 2005, 2004, 2003, 2002 and 2001 have been extracted from the financial statements for the respective years. We have been advised that the Financial Statements of the Company as at and for the year ended March 31, 2005 have been audited and reported upon by M/s Rumji Jal Master and the Financial Statements for the years ended March 31, 2004, 2003, 2002 and 2001 have been audited and reported upon by M/s Mohan and Sridhar. These are as adopted by the members of the Company. We have relied on these audited financial statements. We have not carried out any audit tests or review procedures on the financial statements of the Company or on the Unconsolidated Statements of Assets and Liabilities and Profits and Losses as at and for the years ended March 31, 2005, 2004, 2003, 2002 and 2001 since we did not perform the audit and neither have we quantified the effect of the adjustments, if any, that would need to be made to ensure consistency in accounting policies of the Company and Royal Orchid Hotels Limited.

5. *We have not read a copy of the auditor's report as at and for the year ended March 31, 2001 as audited by M/s Mohan and Sridhar and are therefore unable to comment on the impact of the same on our procedures.*
6. *The Auditors in their report for the accounting years ended March 31, 2004, 2003, 2002 and 2001 had included certain qualifications (reproduced in Note 1 of the Annexure 4 forming part of the summary statements), for which, in the absence of any quantification, no adjustments have been made in the summary statements*
7. *Subject to our comments above, if Royal Orchid Hotels Limited had, at all material times, held the shares in Maruti Comforts and Inn Private Limited proposed to be acquired, retrospectively, it would not have impacted the profits and losses or the assets and liabilities of the Company as the investment by Royal Orchid Hotels Limited is being made through the purchase of equity shares held by the selling shareholders of the Company which have been outstanding since March 31, 2001 and there will be no change in the networth of the Company as a result of the acquisition of these shares. However if Royal Orchid Hotels Limited had, at all material times, held the shares in Maruti Comforts and Inn Private Limited proposed to be acquired, retrospectively, there would have been a material impact on:*
 1. the unconsolidated Balance Sheet of Royal Orchid Hotels Limited, where the assets would have been higher by the cost of the investment proposed to be made, further any diminution in the value of this investment which would have been other than temporary in nature would have resulted in a provision being recorded in the unconsolidated Profit and loss Account of ROHL and would have affected the net profit or loss for the respective year. Since no dividends had been declared by the Company for the years ended March 31, 2005, 2004, 2003, 2002 and 2001, the income of Royal Orchid Hotels Limited for the respective years would not have been impacted on account of dividends. However, the method of financing this investment in the Company could have affected the net profit or loss for the respective years; and
 2. the consolidated Balance Sheet of Royal Orchid Hotels Limited, where the assets and liabilities would have been higher due to the line-by-line consolidation of the assets and liabilities of the Company with minority interest being recorded to the extent of the 49 per cent interest of the minority shareholders in the Company. The consolidated net profit/loss of Royal Orchid Hotels Limited for the respective years would have been higher or lower to the extent of its share of the profits/losses of the Company, to the extent of adjustments required to be made to make the accounting policies of the Company consistent, to the extent of Amortisation of Goodwill or any other Intangible assets that would have arisen upon consolidation and to the extent the qualifications in the auditors reports would have been recorded in the Consolidated Financial Statements of the Company.
8. The sufficiency of the procedures, as set forth in the above paragraphs, is the sole responsibility of the Company. We make no representation regarding the sufficiency of the procedures described above either for the purposes for which this report has been requested or for any other purpose.
9. This report should not be in any way construed as a re-issuance or re-dating of any of the previous audit reports issued by us or by any other firm of Chartered Accountants nor should it be construed as a new opinion on any of the financial statements referred to therein.
10. This report is intended solely for your information and for inclusion in the Offer Document in connection with the specific Public Offer of Royal Orchid Hotels Limited and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For Walker, Chandiok & Co
Chartered Accountants

Vinod Chandiok
Partner
 Membership No. 10093

New Delhi
 22 October 2005

MARUTI COMFORTS AND INN PRIVATE LIMITED

ANNEXURE 1 - UNCONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(Amounts in Rupees millions)

Particulars	As at 31 March				
	2005	2004	2003	2002	2001
A. Fixed Assets					
Gross block	108.38	106.57	105.61	103.06	103.67
Less: Accumulated Depreciation	44.74	39.88	35.00	29.64	23.92
Net Block	63.64	66.70	70.61	73.42	79.75
Less: Revaluation Reserve	-	-	-	-	-
Capital Work in Progress	-	-	-	-	-
Net Block after adjustment for Revaluation Reserve	63.64	66.70	70.61	73.42	79.75
B. Investments	-	-	-	-	-
C. Current Assets, Loans and Advances					
Inventories	-	-	-	0.12	0.52
Sundry Debtors	1.83	1.47	-	-	0.20
Cash and Bank Balances	0.50	0.25	0.21	0.03	0.01
Unbilled Revenues	-	-	-	-	-
Loans and Advances	0.25	0.23	0.02	0.53	0.69
Other Current Assets	7.81	7.67	7.74	7.76	12.13
Deferred Tax Asset, net	-	-	-	-	-
	10.39	9.62	7.97	8.44	13.55
D. Liabilities and Provisions:					
Secured Loans	19.70	39.53	55.53	78.61	65.07
Unsecured Loans	4.16	19.23	11.94	12.25	11.83
Current Liabilities and Provisions	30.41	30.89	35.58	40.17	45.06
Deferred Tax Liability, net	-	-	-	-	-
	54.27	89.65	103.05	131.03	121.96
	(43.88)	(80.03)	(95.08)	(122.59)	(108.41)
E. Net Worth	19.76	(13.33)	(24.47)	(49.17)	(28.66)
F. Represented by					
Share Capital	41.00	41.00	41.00	41.00	41.00
Reserves / (Accumulated Losses)	(40.03)	(54.33)	(65.47)	(90.17)	(66.77)
Share Application money	18.79	-	-	-	-
Less Revaluation Reserve	-	-	-	-	-
Reserves (Net of Revaluation Reserves)	-	-	-	-	-
Total	19.76	(13.33)	(24.47)	(49.17)	(25.77)
G. Misc. Expenditure to the extent not written off or adjusted	-	-	-	-	2.89
H. Net Worth (F-G)	19.76	(13.33)	(24.47)	(49.17)	(28.66)

To be read together with the notes forming part of the Summary Statements attached.

MARUTI COMFORTS AND INN PRIVATE LIMITED
ANNEXURE 2 - UNCONSOLIDATED STATEMENT OF PROFITS AND LOSSES

(Amounts in Rupees millions)

Particulars	Year Ended March 31				
	2005	2004	2003	2002	2001
Income					
Sales:					
Room revenues	9.65	2.98	-	3.15	7.76
Food and beverages	12.35	7.04	-	3.06	8.26
Other service charges	3.85	-	-	-	-
Other income	10.77	13.15	33.55	3.42	6.91
Total income	36.62	23.17	33.55	9.63	22.93
Expenditure					
Food and beverages consumed	3.50	-	0.12	2.14	5.09
Employee costs	3.54	0.47	0.15	1.91	4.78
Maintenance, upkeep and services	4.14	0.98	0.08	0.98	2.33
Operating and administrative expenses	6.28	4.85	2.80	4.95	11.23
Preliminary expenses written off	-	-	-	2.89	-
Total expenditure	17.46	6.30	3.15	12.87	23.43
Profit Before Depreciation, Interest and Tax	19.16	16.87	30.40	(3.24)	(0.50)
Depreciation	4.86	4.72	5.52	6.08	7.19
Interest & Finance Charges	0.00	1.01	0.18	14.09	12.37
Profit before taxation	14.30	11.14	24.70	(23.41)	(20.06)
Current tax	-	-	-	-	-
Deferred tax	-	-	-	-	-
Net Profit	14.30	11.14	24.70	(23.41)	(20.06)

To be read together with the notes forming part of the Unconsolidated Statements attached.

MARUTI COMFORT AND INNS PRIVATE LIMITED
ANNEXURE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO
THE UNCONSOLIDATED STATEMENTS

(All amounts in Rupees millions unless otherwise stated)

1. Significant accounting policies

i. Basis of preparation

The financial statements are prepared on accrual basis under the historical cost convention and in accordance with the applicable accounting standards issued by the Institute of Chartered Accountants of India. The accounting policies have been consistently applied unless otherwise stated.

ii. Revenue recognition

Revenues comprise income from membership fees, Sale of rooms, food and beverages and allied services. Other income comprises income from sale of scrap, coconut yield, sale of fixed assets income from dealing in shares, commission received and write back of loans, interest and other liabilities.

Membership fee is for a period of 30 years starting from the commencement of operations. Accordingly, membership fee is accrued rateably over the contract period. The balance of such fees received is carried as a liability. Also, the membership fee is accrued for the contracted amount on receipt of application for the membership. Dues on such account are carried under other current assets. Membership and Subscription due from the members are accounted on Cash Basis.

iii. Fixed assets

Fixed assets are stated at cost inclusive of expenses incurred in bringing the assets into working condition for its intended use.

Assets acquired on hire purchase are capitalized at cost on taking possession. Interest thereon is charged to revenue over the contract period of the same. Pre-operative expenses relating to construction are apportioned over the value of the related assets.

iv. Depreciation

Depreciation on buildings, roads and drainage and Borewells is provided on the Straight Line method over a period of 25 years. Other assets are depreciated in accordance with the rates specified in Schedule XIV to the Companies, Act, 1956 on written down basis from the date of installation for the period of use.

v. Investments

Investments are stated at cost.

vi. Retirement benefits

Contributions payable to the recognized Provident Fund and Employee State Insurance Scheme, which are defined contribution schemes, are charged to the profit and loss account as incurred.

vii. Inventory

Stock of food and beverages are stated at cost. Linen purchases are charged to revenue over two years. House keeping materials purchased, in nature of consumables, are charged to revenue in the year of purchase.

viii. Preliminary Expenses

The balance in Preliminary expenses and Pre-operative expenditure is fully written off during the year.

2. Leases

The hotel building is constructed on the land leased to the Company for a period of 30 years starting from August 1, 1994. The management does not foresee any risk on this arrangement.

3. Commitments and contingencies

The company had a contingent liability of Rs 0.01 million pertaining to Block Assessment u/s 158(BC) of the Income Tax Act, 1961 pending with CIT Appeals for the year ended March 31,2004, the outcome of which was unascertainable. The management was of the opinion that the appeal will be settled in their favour.

4. Adjustments on account of qualifications in auditors' reports

The auditors of the Company, M/s Mohan and Sridhar had qualified their report to the members of the Company for the years ended 31 March 2004, 2003, 2002 and 2001 attributable to (a) incorrect accounting practices, or (b) failures to make provisions or other adjustments. These qualifications along with the related notes to the accounts are reproduced below:

As regards to Notes to the Financial Statements

Year ended 31 March 2003

- *Note 2 to the financial statements – non provision for interest on borrowings during the year and writing back interest due at the beginning of the year for which the necessary approval is effected subsequent to the year end.*

Notes 2 to the financial statements read as follows:

On October 15, 2001, the operations of the Company at Dominion Club was suspended on account of closure by the Financial Institutions, KSFC and KSIIDC. The revenue and expenditure is for the period ended on that date. The management has applied for a one time settlement with the financial institutions. The club re-opened during the month of May 2003.

- *Non accounting for subscription fee from members due to closure of club activities (no note reference included)*
- *Note 5 to the financial statements – non confirmation of balances in creditor and loan accounts*

Notes 5 to the financial statements read as follows:

Sundry debtors, creditors, loans taken and advances and bank accounts are subject to confirmation and reconciliation, where applicable.

Since the effect of these qualifications have not been quantified, it has not been possible to adjust the differences in the 'Unconsolidated Statements of Assets and Liabilities and Profits and Losses, as Restated.'

BASIS OF ISSUE PRICE

The Issue Price will be determined by us in consultation with BRLMs, on the basis of assessment of market demand for the Equity Shares, by way of Book Building Process.

Qualitative Factors:

- One of the leading hospitality companies in Bangalore and Mysore with capacity of 435 rooms.
- We focus on business travellers which makes us less susceptible to the seasonality factor.
- All our hotels are located at prime business locations in Bangalore and Mysore
- In-house designing skills and experience in project management enables us to reduce and control set up costs.
- Presence across different price categories enabling us to offer services to junior middle and senior management of our corporate customers

Quantitative Factors

1. Adjusted Earnings per share (EPS) of face value of Rs.10

Royal Orchid Hotels Limited (Consolidated)

Period	Adjusted PAT (Rs. millions)	Weighted Average number of Shares*	EPS (Rs.)	Weights
Year ended March 31, 2003	2.38	18,246,140	0.13	1
Year ended March 31, 2004	43.48	18,246,140	2.38	2
Year ended March 31, 2005	129.87	18,302,546	7.10	3
Weighted Average			4.36	

* In the Annual General Meeting held on Sept 28, 2005, the members of the Company approved the issue of one bonus share for every equity share held on that date. Therefore, the weighted average number of shares and the Earnings/(loss) per share reflect the effect of this bonus issue for all the periods presented.

Royal Orchid Hotels Limited (Unconsolidated)

Period	Adjusted PAT (Rs. millions)	No. of shares*	EPS (Rs.)	Weights
Year ended March 31, 2003	2.38	18,246,140	0.13	1
Year ended March 31, 2004	35.16	18,246,140	1.93	2
Year ended March 31, 2005	115.30	18,302,546	6.30	3
Weighted Average			3.82	

* In the Annual General Meeting held on Sept 28, 2005, the members of the Company approved the issue of one bonus share for every equity share held on that date. Therefore, the weighted average number of shares and the Earnings/(loss) per share reflect the effect of this bonus issue for all the periods presented.

2. Price/Earnings (P/E)* ratio in relation to Issue Price of Rs. [●]
 - a. Based on year ended March 31, 2005 consolidated EPS of Rs. 7.10- [●]
 - b. Based on weighted average consolidated EPS of Rs. 4.36 - [●]

*would be calculated after discovery of the Issue Price through Book-building

3. Weighted average return on Networth

Royal Orchid Hotels Limited (Consolidated)

Period	Adjusted PAT (Rs. millions)	Networth (Rs. millions)	RoNW (%)	Weights
Year ended March 31, 2003	2.38	77.28	3.08%	1
Year ended March 31, 2004	43.48	131.97	32.95%	2
Year ended March 31, 2005	129.87	281.99	46.05%	3
Weighted Average			34.52%	

Royal Orchid Hotels Limited (Unconsolidated)

Period	Adjusted PAT (Rs. millions)	Networth (Rs. millions)	RoNW (%)	Weights
Year ended March 31, 2003	2.38	77.28	3.08%	1
Year ended March 31, 2004	35.16	112.45	31.27%	2
Year ended March 31, 2005	115.30	233.57	49.36%	3
Weighted Average			35.62%	

4. Minimum Return on increased Networth required to maintain pre issue EPS [•]

5. Net Asset Value per share (NAV) pre issue

Royal Orchid Hotels Limited (Consolidated)

Period	Networth (Rs. millions)	No. of shares*	NAV (Rs)
Year ended March 31, 2003	77.28	18,246,140	4.24
Year ended March 31, 2004	131.97	18,246,140	7.23
Year ended March 31, 2005	281.99	18,302,546	15.41

* The number of shares outstanding as on the date of filing of this document is 20,413,965

Royal Orchid Hotels Limited (Unconsolidated)

Period	Networth (Rs. millions)	No. of shares*	NAV (Rs)
Year ended March 31, 2003	77.28	18,246,140	4.24
Year ended March 31, 2004	112.45	18,246,140	6.16
Year ended March 31, 2005	233.57	18,302,546	12.76

* In the Annual General Meeting held on Sept 28, 2005, the members of the Company approved the issue of one bonus share for every equity share held on that date. Therefore, the weighted average number of shares and the Earnings/(loss) per share reflect the effect of this bonus issue for all the periods presented.

6. Net Asset Value per share (NAV) after the Issue

The NAV per Equity Share after the Issue is [•]

Issue price per Equity share: Rs. [•]

Issue Price per Equity Share will be determined on conclusion of book building process

7. Comparison with Industry Peers*

Particulars	Sales (Rs mn)	EPS (Rs)	P/E	RoNW	NAV (Rs)
Royal Orchid Hotels Limited**	576.33	7.10	[•]	46.05%	15.41
Taj GVK Hotels Limited	1154.73	16.9	30.7	19.8%	95.4
Asian Hotels Limited	2580.50	11.3	28.2	9.4%	121.6

Jaypee Hotels Limited	1458.62	3.0	20.2	5.4%	21.6
Oriental Hotels Limited	1323.60	7.8	28.7	7.4%	116.9

* for the year ended March 31, 2005

** Data for Royal Orchid Hotels Limited has been provided on a consolidated basis, while that for the peer companies is on unconsolidated basis.

For the industry peers, figures for EPS, P/E, RoNW and Book Value is taken from Capital Market Issue dated September 12 -25, 2005

The BRLMs believe that the Issue Price of Rs. [●] is justified in view of the above qualitative and quantitative parameters. See the section titled “Risk Factors” on page viii of this Draft Red Herring Prospectus and the financials of the Company including important profitability and return ratios, as set out in the Auditors Report on consolidated financial statements on page 91 of this Draft Red Herring Prospectus to have a more informed view.

STATEMENT OF TAX BENEFITS

The Board of Directors,
Royal Orchid Hotels Limited
Hotel Harsha
No. 11 Park Road
Bangalore – 560 001

Dear Sirs,

We hereby certify that the enclosed annexure states the possible tax benefits available to **Royal Orchid Hotels Limited** (the “Company”) and to the Shareholders of the Company under the provisions of the Income Tax Act, 1961 and other direct and indirect tax laws presently in force in India. Several of these benefits are dependent on the Company or its shareholders fulfilling the conditions prescribed under the relevant tax laws. Hence, the ability of the Company or its Shareholders to derive tax benefits is dependent upon fulfilling such conditions, which based on business imperatives the Company faces in the future, the Company may or may not choose to fulfill.

The benefits discussed in the enclosed statement are not exhaustive. This statement is only intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. A shareholder is advised to consult his/ her/ their own tax consultant with respect to the tax implications of an investment in the equity shares particularly in view of the fact that certain recently enacted legislation may not have a direct legal precedent or may have a different interpretation on the benefits, which an investor can avail.

We do not express any opinion or provide any assurance as to whether:

- The Company or its shareholders will continue to obtain these benefits in future; or
- the conditions prescribed for availing the benefits have been / would be met with.

The contents of this annexure are based on information, explanations and representations obtained from the Company and on the basis of our understanding of the business activities and operations of the Company.

This report is intended solely for your information and for the inclusion in the offer Document in connection with the proposed IPO of the Company and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For Walker, Chandiok & Co
Chartered Accountants

Vinod Chandiok
Partner
Membership No. 10093

New Delhi
22 October 2005

ANNEXURE TO THE CERTIFICATE

STATEMENT OF POSSIBLE TAX BENEFITS

(A) BENEFITS TO THE COMPANY

UNDER INCOME TAX ACT, 1961:

1. Subject to Compliance of certain conditions laid down in Section 32 of the Income Tax Act, 1961 (hereinafter referred to as “the Act”) the Company will be entitled to a deduction for depreciation: -
 - a) In respect of tangible assets;
 - b) In respect of intangible assets being in the nature of know-how, patents, copyrights, trademarks, licenses, franchises or any other business or commercial rights of similar nature acquired on or after 1st day of April, 1998;

owned, wholly or partly, by the Company and used for the purposes of business or profession, at the rates prescribed under the Income Tax Rules, 1962;
2. Under section 32(1)(ia) of the Act, for the previous year ending on or after 31.03.2006, the company would be entitled to additional depreciation @20% in respect of any new Plant & Machinery acquired or installed after the 31st of March 2005 subject to the fulfilment of other conditions specified under the said section.
- 3.. Under section 35D of the Act a deduction equal to one-fifth of certain specified expenditure, including specified expenditure incurred in connection with the issue for the extension of the industrial undertaking, for a period of five successive years subject to the limits provided and conditions specified under the said section.
3. Under section 115JAA(1A) of the Act tax credit shall be allowed in respect of any tax paid (MAT) under section 115JB of the Act for any Assessment Year commencing on or after 1st April 2006. Credit eligible for carry forward is the difference between MAT paid and the tax computed as per the normal provisions of the Act. Such MAT credit shall not be available for set-off beyond 5 years immediately succeeding the year in which the MAT credit initially arose.
4. Under section 80- IB (7)(b) profits of a hotel which starts functioning from April 1, 1991 and ending with March 31, 1995 or beginning of April 1, 1997 and ending before March 31, 2001 shall be entitled to deduction of 30% of the profits and gains derived from such hotel for a period of 10 consecutive years beginning from the year the hotel starts functioning, subject to fulfilment of certain conditions..

UNDER THE CUSTOMS TARIFF:

In terms of Notification No. 97/2004-CUS , capital goods (including second- hand) and spares imported against EPCG license issued under Export Import policy are subjected to 5% concessional Customs duty plus education cess , subject to fulfilment of export obligation.

In terms of Notification No. 92/2004 –CUS, Food items and alcoholic beverages will have Duty Free Credit entitlement benefit @ 5% of the total foreign exchange earned in the preceding financial year, subject to conditions.

Samples imported into India to the value limit of Rs. 10,000 subject to conditions would be exempt from payment of Customs duty vide Ministry's circular dated 13.11.1998 at 1998(104) E.L.T T56-T58.

(B) TO THE SHAREHOLDERS OF THE COMPANY - UNDER THE INCOME TAX ACT, 1961:

Resident Shareholders:

5. In terms of section 10(32) of the IT Act, any income of minor children, included in the total income of the parent under section 64(1A) of the IT Act will be exempt from tax to the extent of Rs.1,500 per minor child.
6. Under section 10(34) of the Act, income by way of dividends referred to in Section 115-O received on the shares of the company is exempted from income tax.
6. Under section 10(38) of the Act, any long term capital gains arising to a shareholder from transfer of long term capital asset being equity shares in the company (i.e. capital asset held for a period 12 months or more) would not be liable to tax in the hands of the shareholder if the following conditions are satisfied:
 - a) The transaction of sale is entered into on or after 1st October, 2004, and
 - b) The transaction is chargeable to securities transaction tax as explained earlier.
7. Under section 48 of the Act read with section 2(42A), if the company's shares are sold after being held for more than twelve months, the gains [in cases not covered under section 10(38) of the Act], if any, will be treated as long term capital gains and the gains shall be calculated by deducting from the gross consideration, the indexed cost of acquisition.
8. Under section 54EC of the Act and subject to the conditions and to the extent specified therein, long term capital gains [other than those exempt under section 10(38)] arising on the transfer of shares of the Company will be exempt from capital gains tax if the capital gain is invested within a period of 6 months after the date of such transfer for a period of at least 3 years in Bonds specified in that section.

If only a part of the capital gain is so reinvested, the exemption shall be proportionately reduced. However, the amounts so exempted shall be chargeable to tax subsequently, if the Bonds are transferred or converted into money within three years from the date of their acquisition.

9. Under section 54ED of the Act and subject to the conditions and to the extent specified therein, long term capital gains [other than those exempt under section 10(38) of the Act] on the transfer of shares of the Company, as and when it is listed, will be exempt from capital gains tax if the capital gains are invested in shares of an Indian Company forming part of an eligible issue of capital, within a period of 6 months after the date of such transfer and held for a period of at least one year. Eligible public issue means issue of equity shares which satisfies the following conditions, namely –
 - a) The issue is made by a public company formed and registered in India;
 - b) The shares forming part of the issue are offered for subscription to the public;

If only a part of the capital gain is so reinvested, the exemption shall be proportionately reduced. However, the amounts so exempted shall be chargeable to tax subsequently, if the new equity shares are transferred or converted into money within one year from the date of their acquisition.

10. Under section 54F of the Act, long term capital gains [other than those exempt under section 10(38) of the Act] arising to an individual or Hindu Undivided Family (HUF) on transfer of shares of the company will be exempt from capital gain tax subject to conditions, if the net consideration from such shares are used for purchase of residential house property within a period of one year before and two years after the date on which the transfer took place or for construction of residential house property within a period of three years after the date of transfer.
11. In terms of section 88E of the Act, the securities transaction tax paid by the shareholder in respect of the taxable securities transactions entered into in the course of his business would be eligible for rebate from the amount of income-tax on the income chargeable under the head "Profit and gains of business or profession" arising from taxable securities transactions. As such, no deduction will be allowed in computing the income chargeable to tax as capital gains, such amount paid on account of securities transaction tax

12. Under section 111A of the Act and other relevant provisions of the Act, short-term capital gains (i.e., if shares are held for a period not exceeding 12 months), arising on transfer of shares in the Company listed on a recognized stock exchange, on which Security Transaction Tax is charged, shall be taxed at a rate of 10% (plus applicable surcharge and educational cess). Short-term capital gains arising from transfer of shares in a Company, other than those covered by section 111A of the Act, shall be subject to tax as calculated under the normal provisions of the Act.
13. Under section 112 of the Act and other relevant provisions of the Act, Long term capital gains, [other than those exempt under section 10(38) of the Act], arising on transfer of shares in the Company, shall be taxed at a rate of 20% (plus applicable surcharge and education cess) after indexation as provided in the second proviso to section 48. The amount of such tax should however be limited to 10% (plus applicable surcharge and education cess) without indexation, at the option of the shareholder, if the transfer is made after listing of shares.

Non-Resident Indians/ Non Residents Shareholders Other than FIIs and Foreign venture capital investors:

- 14 In terms of section 10(32) of the IT Act, any income of minor children, included in the total income of the parent under section 64(1A) of the IT Act will be exempt from tax to the extent of Rs.1,500 per minor child.
15. Under section 10(34) of the Act, any income by way of dividends referred to in section 115-O received by a non-resident Indian shareholder (i.e. an individual being a citizen of India or person of Indian origin who is not a 'resident') on the shares of the Company is exempted from the tax.
16. Under section 10(38) of the Act, any long term capital gains arising to a non-resident shareholder from transfer of long term capital asset being an equity shares in a company would not be liable to tax in the hands of the shareholder if the following conditions are satisfied:
- a) The transaction of sale of such equity share is entered into on or after 1st October, 2004 and
 - b) The transaction is chargeable to securities transaction tax.
17. Under Section 54EC of the Act and subject to the conditions and to the extent specified therein, long term capital gains [in cases not covered under section 10(38) of the Act] arising on the transfer of shares of the Company will be exempt from capital gains tax if the capital gain are invested within a period of 6 months after the date of such transfer for a period of at least 3 years in Bonds specified in that section.
18. Under Section 54ED of the Act and subject to the conditions and to the extent specified therein, long term capital gains [in cases not covered under section 10(38) of the Act] on the transfer of shares of the company, as and when it is listed, will be exempt from capital gains tax if the capital gain are invested in shares of an Indian company forming part of an eligible public issue, within a period of 6 months after the date of such transfer and held for a period of at least one year. Eligible public issue means issue of equity shares which satisfies the following conditions, namely –
- a) The issue is made by a public company formed and registered in India;
 - b) The shares forming part of the issue are offered for subscription to the public;

19. Under Section 54F of the Act, long term capital gains [in cases not covered under section 10(38) of the Act] arising to an individual or Hindu Undivided Family (HUF) on transfer of shares of the company will be exempt from capital gain tax subject to other conditions, if the net consideration from such shares are used for purchase of residential house property within a period of one year before and two year after the date on which the transfer took place or for construction of residential house property within a period of three years after the date of transfer.
20. In terms of section 88E of the Act, the securities transaction tax paid by the shareholder in respect of the taxable securities transactions entered into in the course of his business would be eligible for rebate from the amount of income-tax on the income chargeable under the head "Profit and gains of business or profession" arising from taxable securities transactions. As such, no deduction will be allowed in computing the income chargeable to tax as capital gains, such amount paid on account of securities transaction tax.
21. Under Section 112 of the Act and other relevant provisions of the Act, long term capital gains (i.e. if shares are held for a period exceeding 12 months) [in cases not covered under section 10(38) of the Act], arising on transfer of shares in the Company, shall be taxed at a rate of 20% (plus applicable surcharge and education cess) after indexation as provided in the second proviso to section 48. The amount of such tax should however, be limited to 10% (plus applicable surcharge and Education cess) without indexation, at the option of the shareholder, if the transfer is made after listing of shares.
22. Under section 115-I of the Act, the non-resident Indian shareholder has an option to be governed by the provisions of Chapter XII-A of the Income Tax Act, 1961 viz. "Special Provisions Relating To Certain Incomes of Non-Residents" which are as follows:
- a) Under provisions of section 115F of the Act, long term capital gains (in cases not covered under section 10(38) of the Act) arising to a non-resident Indian from the transfer of shares of the Company subscribed to in convertible Foreign Exchange (in cases not covered under section 115E of the Act) shall be exempt from Income tax, if the net consideration is reinvested in specified assets or in any savings certificates referred to in section 10(4B), within six months of the date of transfer. If only part of the net consideration is so reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted into money within three years from the date of their acquisition.
 - b) Under provisions of section 115G of the Act, it shall not be necessary for a Non-Resident Indian to furnish his return of income under section 139(1) if his income chargeable under the Act consists of only investment income or long term capital gains or both; arising out of assets acquired, purchased or subscribed in convertible foreign exchange and tax deductible at source has been deducted there from as per the provisions of Chapter XVII-B of the Act.
23. Under the first proviso to section 48 of the Act, in case of a non resident shareholder, in computing the capital gains arising from transfer of shares of the company acquired in convertible foreign exchange (as per exchange control regulations) (in cases not covered by section 115E of the Act), protection is provided from fluctuations in the value of rupee in terms of foreign currency in which the original investment was made. Cost indexation benefits will not be available in such a case. The capital gains/loss in such a case is computed by converting the cost of acquisition, sales consideration and expenditure incurred wholly and exclusively in connection with such transfer into the same foreign currency which was utilized in the purchase of the shares.
24. Provisions of the Act, vis-à-vis provisions of the tax treaty: In terms of section 90(2) of the IT Act, the provisions of the Act would prevail over the provisions of the tax treaty, to the extent they are more beneficial to the non-resident.

Foreign Institutional Investors (FIIs) :

25. In terms of section 10(34) of the Act, any income by way of dividends referred to in section 115-O received on the shares of the company is exempted from the tax.
26. In terms of section 10(38) of the Act, any long term capital gains arising to an investor from transfer of long term capital asset being an equity shares in a company would not be liable to tax in the hands of the investor if the following conditions are satisfied:
 - a) The transaction of sale should be entered into on or after 1st October, 2004 and
 - b) The transaction is chargeable to such securities transaction tax.
27. Under section 54EC of the Act and subject to the conditions and to the extent specified therein, long term capital gain [in cases not covered under section 10(38) of the Act] arising on the transfer of share of the company will be exempt from capital gain tax if the capital gain are invested within a period of 6 month after the date of such transfer for a period of at least 3 years in bond specified in that section.
28. Under section 54ED of the Act and subject to the conditions and to the extent specified therein, long term capital gains [in cases not covered under section 10(38) of the Act] on the transfer of shares of the company, as and when it is listed, will be exempt from capital gains tax if the capital gain are invested in shares of an Indian company forming part of a eligible public issue, within a period of 6 months after the date of such transfer and held for a period of at least one year. Eligible public issue means issue of equity shares which satisfies the following conditions, namely –
 - a) the issue is made by a public company formed and registered in India;
 - b) the shares forming part of the issue are offered for subscription to the public;
29. Under section 115AD (1)(ii) of the Act short term capital gains on transfer of securities shall be chargeable @ 30% /10% (plus applicable surcharge and education cess).
30. Under section 115AD(1)(iii) of the Act income by way of long term capital gain arising from the transfer of shares (in cases not covered under section 10(38) of the Act) held in the company will be taxable @10% (plus applicable surcharge and education cess). It is to be noted that the benefits of indexation are not available to FIIs.
31. Provisions of the Act, vis-à-vis provisions of the tax treaty: In terms of section 90(2) of the IT Act, the provisions of the Act would prevail over the provisions of the tax treaty, to the extent they are more beneficial to the FII's.

Venture Capital Companies/Funds

In terms of section 10(23FB) of the Act, all Venture capital companies/funds registered with Securities and Exchange of India, subject to the conditions specified, are eligible for exemption from income tax on all their income, including dividend from and income from sale of shares of the company.

(C) Benefits to Members of the Company under the Wealth Tax Act, 1957

Shares of company held by the shareholder will not be treated as an asset within the meaning of section 2(ea) of the Wealth Tax Act 1957, hence shares are not liable to Wealth Tax.

(D) Benefits to Members of the Company under the Gift Tax Act, 1958.

Gift made after 1st October 1998 is not liable for any gift tax and hence gift of shares of the company would not be liable for any gift tax.

Notes:

1. All the above benefits are as per the current tax law as amended by the Finance Act, 2005.
2. The stated benefits will be available only to the sole/first named holder in case the shares are held by joint holders.
3. In respect of non-residents, the tax rates and the consequent taxation mentioned above shall be further subject to any benefits available under the Double Taxation Avoidance Agreements, if any, between India and the country in which the non-resident has fiscal domicile.
4. In view of the individual nature of tax consequences, each investor is advised to consult his/her own tax advisor with respect to specific tax consequences of his/her participation in the scheme.

HOTEL INDUSTRY OVERVIEW

The information presented in this section has been obtained from publicly available documents from various sources, including officially prepared materials from the Government of India and its various ministries, industry websites/publications and company estimates. Industry websites/publications generally state that the information contained therein has been obtained from sources believed to be reliable but their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although we believe industry, market and government data used in this Draft Red Herring Prospectus is reliable, it has not been independently verified. Similarly, internal Company estimates, while believed by us to be reliable, have not been verified by any independent agencies.

Indian Hotel Industry

The liberalisation of Indian economy in 1991 and the integration of India into the Global Economy has given impetus to business travelers and tourist travelers. As a result the hotel industry in India has recorded a healthy growth since 1991. In the late 1990s major hotel chains, new entrants and international chains entered the Indian market. Though there was a slowdown owing to the IT industry slow down, September 11, 2001 attacks and SARS outbreak in 2002 the industry has recovered since that period.

The following table shows the growth over the past five years in hotel rooms in hotels who are members of Federation of Hotel and Restaurant Associations of India ("FHRAI").

Category	2000		2001		2002		2003		2004		Growth in rooms CAGR (2000-04)
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	
Five Star Deluxe	57	12,556	65	14,959	68	15,672	68	16,050	74	17,903	9.27%
Five-Star	73	9,051	72	8,513	72	8,662	72	8,669	71	8,554	-1.40%
Four-Star	92	7,232	100	7,791	100	7,614	102	7,408	104	7,355	0.42%
Three-Star	379	19,785	413	20,691	413	21,387	409	21,098	414	21,433	2.02%
Two-Star	244	9,135	234	9,958	234	9,278	226	8,903	221	8,639	-1.39%
One-Star	46	2,253	48	2,428	48	1,696	44	1,520	43	1,480	-9.97%
Heritage Approved (unclassified)	66	2,372	71	2,551	71	2,492	67	2,258	69	2,297	-0.80%
Unapproved	263	10,560	308	12,318	308	12,515	297	11,921	304	12,058	3.37%
	493	18,350	455	17,757	455	17,925	452	17,895	477	18,796	0.60%
Total	1,713	91,294	1,766	96,966	1,769	97,241	1,737	95,722	1,777	98,515	1.92%

Source: FHRAI

The table above shows that there has been a low growth in addition of rooms in all the major segments. This slow growth in new hotel rooms is one of the reasons for the high occupancy rates in major cities in India.

Classification of Hotels in India

The hotels in India can be broadly classified into two categories - approved and unapproved. The Ministry of Tourism, Government of India, grants approval to hotels at the project stage and then classifies into one of the star categories. The hotels are classified into 7 categories

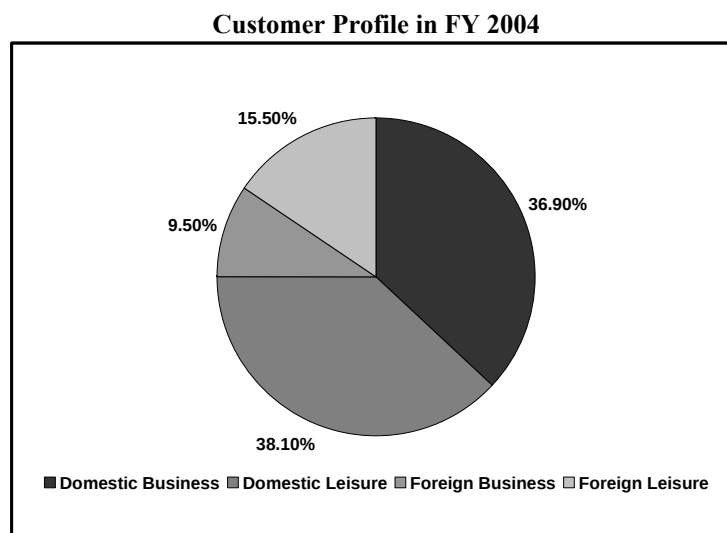
- Five Star Deluxe
- Four Star
- Two Star
- Heritage
- Five Star
- Three Star
- One Star

The Key Characteristics of each category of hotels and typical locations is given below.

Category	Typical Location	Target Customers
Five Star Deluxe & Five Star	Restricted to the four metros and Major cities like Bangalore and Hyderabad	Foreign business and leisure travellers, senior business executives and top government officials.
Three Star & Four Star	Located in all major cities as well as tourist destinations	Middle level business executives and leisure travellers
One Star & Two Star	Located in major cities and small cities and tourist destinations	Domestic tourists
Heritage	Heritage hotels comprise old palaces, havelis, castles, forts and residences, converted into hotels largely located in leisure tourist destinations like Jaipur, Mysore.	Primarily foreign leisure travellers.

Customer Profile of Hotels in India

The clientele of Hotels can be broadly classified as Domestic Leisure Travellers, Domestic Business Travellers, Foreign Business Travellers and Foreign Leisure Travellers. The inflow of business travellers is less seasonal in nature in comparison to leisure travellers.



Source: FHRAI

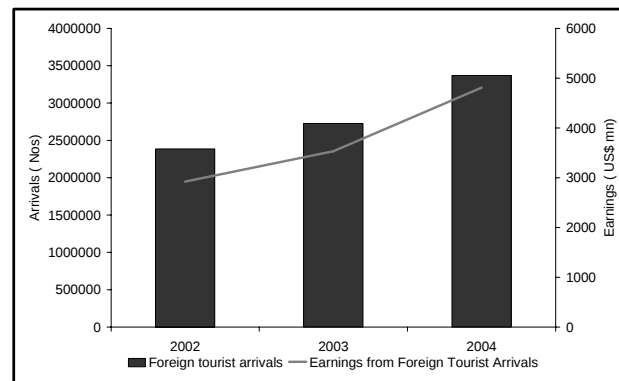
As seen in the above chart, business travelers and leisure travelers, both domestic and international, form the major clientele for hotels in India.

Indian Tourism Industry

Tourism in India has registered significant growth in recent years. In 1951, international tourist arrivals stood at around 17,000 only while the same has gone up to 3.37 million in 2004. The upward trend is expected to reach new heights in coming years. Tourism is the third largest earner of foreign exchange for India and also one of the sectors which employs the largest manpower. The World Travel and Tourism

Council (WTTC) has identified India as one of the foremost growth centres in the world in the coming decade.

Focused marketing of tourism products and branding of India as a high value destination, policies targeted at strengthening of tourism infrastructure by the Ministry of Tourism have been responsible for a healthy growth in international tourist arrivals to India. The following graph indicates the increase in foreign tourist arrivals and foreign currency earnings due to foreign tourist arrivals over the past three years. In the year 2004 foreign tourist arrivals grew at 23.5% and foreign exchange earnings from international tourists grew by 32.5%.



Source: Ministry of Tourism, Government of India – Annual Report 2004-05

Domestic Leisure and Business Travellers

According to the DoT, domestic tourist visits increased from 220.1 million in 2000 to 271.8 million in 2002 and is estimated to have increased to 309 million in 2003. Increase in income levels, emergence of a dynamic middle income class and improved infrastructure in terms of domestic air and rail connectivity have led to growth in domestic leisure travel. Simultaneously, domestic business traffic has also grown with general improved corporate profitability and positive business environment in India.

Typical Ownership/Operation structures in the Hotel Industry

The ownership/ operation structures in the hotel industry in India take various different forms. Some of these structures are as follows

Ownership: Under this structure, the owner owns the hotel building and the land on which the hotel is situated on a long-term lease. The owner manages and operates the hotel.

Management Contracts: Under this structure, a manager manages the operations of a hotel owned by a third party. In return, the manager earns management fees. The management fee could be a percentage of revenue or percentage of the gross operating profit or a combination of both. The cost of upkeep and renovation of the hotel is borne by the owner.

Lease/Licence Arrangements: The lessor or licensor (the owner of the hotel property) leases or licenses the hotel property to a lessee or licensee for a specified duration. The lessee or licensee incurs the entire capital expenditure for renovating the hotel. In general lease agreements the lessor owns the property and the lessee has an interest in the asset for the duration of the lease agreement. Generally, a 'lease rental' or 'licence fee' is a proportion of the gross revenue, and is paid to the lessor/ licensor.

Joint Venture: The Lessor and the Lessee (the Company) incorporate a joint venture company which shall own, operate and manage the hotel. The Lessor incurs the expenditure for renovating the hotel premises fit for occupation and hands over possession to the Lessee.

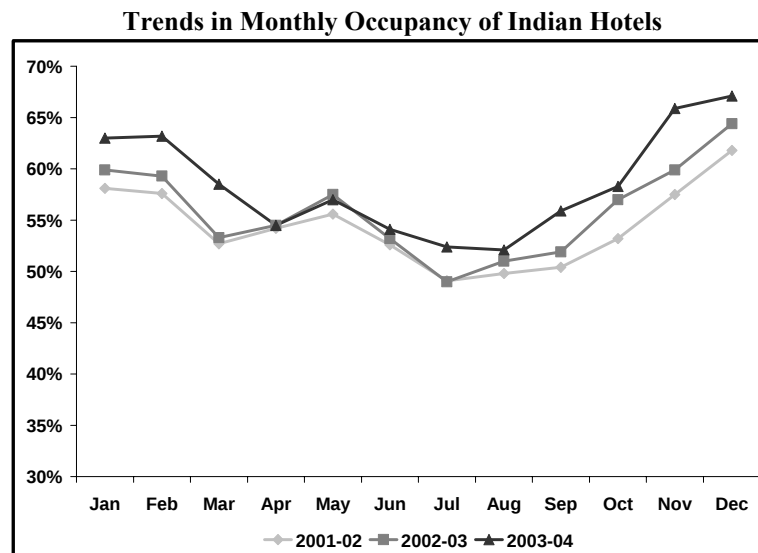
Distribution and Sales Channels

The major distribution and sales channels for Hotel Reservations are:

- **Global Distribution Systems (GDS):** A Global Distribution System (GDS) is a network of electronic reservation systems used by buyers (travel agents and public) and sellers (hotels, airlines, car rental companies, etc) to exchange travel-related services. Globally GDS systems account for majority of hotel reservations but their usage is relatively lower in India.
- **Centralised Reservation Systems (CRS):** This system is primarily used by hotel chains with properties in different locations, whereby the a common central system is used for reservations in all the properties
- **Travel Agent:** Travel agents are the intermediaries between the traveler and the Hotel.
- **Marketing Alliances:** Major hotels are often associated with marketing alliances. These alliances provide the hotel direct access to reservation network, promotion, and Internet coverage. Major marketing alliances include Leading Hotels of the World, Leading Small Hotels of the World and airline tie-ups.
- **Internet:** Internet has become an effective medium for hotel reservations in India due to its ease and cost effectiveness.

Seasonal Nature of the Industry

The Hotel Industry is seasonal with revenues generally being higher during the second half (October to March) of each fiscal year as compared to the first half (April to September) of the fiscal year. Business from tourist and business travellers is generally higher during the second half of the fiscal year. The following graph illustrates the seasonality in the occupancy rates.



Source: FHRAI

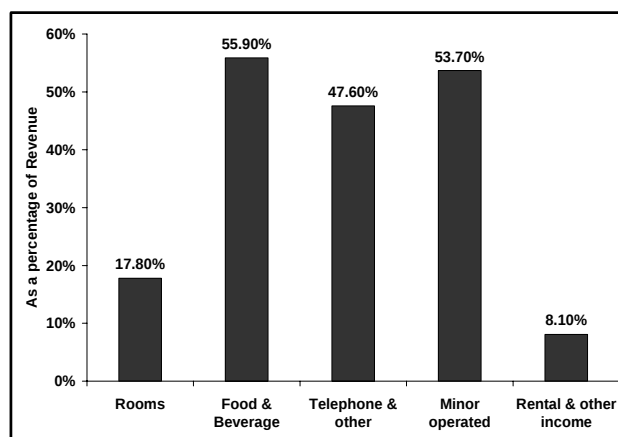
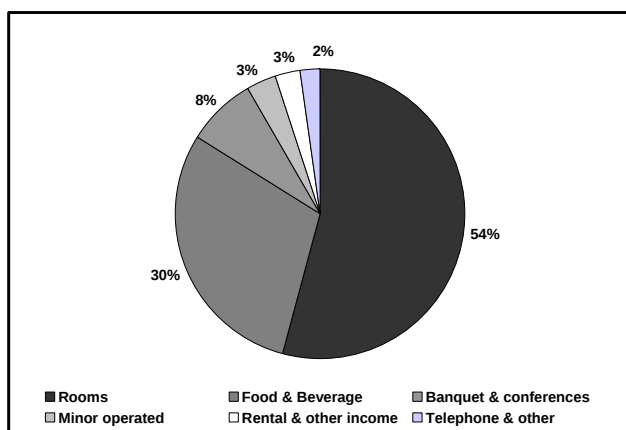
The seasonal nature of the hotel industry is also dependant upon any major event in respective cities. For example in Bangalore the occupancy rates are higher during the Aero shows, annual industry conventions and seminars etc.

Revenue and Cost Composition

Rooms revenue, generally considered as the largest component of the hotel profitability, constituted 51.2 % of the revenues across all the hotels in 2003-04. Food and Beverage was the next significant component with a contribution of 29.6%. The following figure illustrates the revenue composition and costing of each individual component. As illustrated in the graph below, the operating margins are high for the room revenues earned. The primary reason for this is the low proportion of variable costs in the operation and maintenance of a room.

Revenue Breakup in 2003-04

Departmental Expenses as a Percentage of Revenue 2003-04



Source: FHRAI

City Wise Trends in Hotel Industry

The following figure represents the Average occupancy and Average Room Rentals in major Indian cities

City	Average Occupancy			Average Rate per Room		
	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04
New Delhi	55.90%	58.30%	69.10%	3,434	2,918	4,247
Mumbai	63.80%	62.60%	66.30%	2,075	1,822	3,063
Kolkata	61.70%	63.60%	64.60%	1,417	1,342	2,520
Chennai	65.00%	63.90%	61.60%	1,936	2,048	2,061
Bangalore	62.80%	72.40%	78.90%	1,921	2,149	4,109
Pune	58.00%	59.90%	62.10%	1,044	1,141	1,820
Goa	56.10%	60.20%	65.30%	1,756	1,982	2,147
Hyderabad	67.20%	71.00%	78.10%	1,131	2,049	2,406
All India Average	53.20%	54.80%	59.70%	2,058	2,004	2,689

Source: FHRAI

The above figures indicate that Bangalore and Hyderabad are the cities with relatively higher occupancy rates and provide opportunities for further expansion to cater to the increasing demand.

OUR BUSINESS

Overview

We operate and manage a chain of hotels under the brand “Royal Orchid” in Bangalore and Mysore in the state of Karnataka, India. At present we operate and manage four hotels- Hotel Royal Orchid, Royal Orchid Central and Royal Orchid Harsha in Bangalore and Royal Orchid Metropole in Mysore. Each of these hotels is targeted at a specific category of clientele giving us access to different customer segments.

We have two subsidiary companies i.e. Icon Hospitality Private Limited and Royal Orchid Hyderabad Private Limited. Royal Orchid Hotels Limited owns 51.22% of the equity share capital of Icon Hospitality Private Limited and 51% of the equity share capital of Royal Orchid Hyderabad Private Limited.

We are expanding our presence in Bangalore through the acquisition of another property and starting new hotels in Hyderabad and Pune.

In the above four hotels put together we offer 435 rooms and operate eight food and beverage outlets and twelve banquet halls. During FY 2004-05 our revenue was Rs. 576.33 million from the various properties under operation. The revenue breakup from our main operations for FY 2005 is as follows:

	FY 2005		Q1 FY 2006	
Particulars	Amount (Rs mn)	Percentage	Amount (Rs mn)	Percentage
Room Revenues	435.84	75.62%	122.95	74.94%
Food & Beverage	117.52	20.39%	36.46	22.22%
Other Service Charges	16.56	2.87%	4.05	2.47%
Total Operating Revenue	569.92	98.88%	163.46	99.63%
Other Income	6.41	1.11%	0.60	0.37%
Total	576.33	100 %	164.06	100%

The following table illustrates the breakup of operating earned by different hotels.

Hotel	Room Revenue (Rs mn)	Food & Beverage Revenue (Rs mn)	Other Service Charges (Rs mn)	Total
Hotel Royal Orchid	238.77	62.41	8.94	310.12
Royal Orchid Central	147.39	29.28	5.32	181.99
Royal Orchid Harsha	41.76	21.22	2.02	65.00
Royal Orchid Metropole	7.92	4.61	0.28	12.81
Total	435.84	117.52	16.56	569.92

Our primary focus is on business customers and our different properties enable us to cater to senior, middle and junior management of various corporates. Airline crew is also an important customer category for us and we enter into periodic tie-ups with different airlines for providing accommodation to their crew.

Our Competitive Strengths

We believe that the following are our primary competitive strengths.

Strong Value Proposition

We strive to provide our customers a superior experience during their stay in our hotels. We provide various amenities required by business travellers at prices which we believe are relatively lower than our competitors. This is achieved by identifying facilities which would enhance services to our customers and allocating our financial resources accordingly. This approach ensures efficient allocation of our financial resources and gives us an advantage in terms of cost of servicing our customers.

Low Set-up Cost

We have strong in-house design capabilities, which coupled with our sourcing abilities enable us to set up facilities at lower cost while ensuring quality. For example, the capital expenditure per room in Hotel Royal Orchid as on June 30, 2005 was approximately Rs. 2 million which we believe is lower than the cost of setting up such rooms in similar hotels. The low set-up cost enables us to have a lower pay back period and reduce the impact of cyclical downturns in the business.

Presence across Different Price Categories of Hotels

We are present across different price categories of hotels - premium to economy segment. This enables us to have access to different categories of customers and provide a complete suite of offerings targeted at top, middle and junior executives of corporate clients.

Locational Advantage

All our existing properties are located in prime locations in Bangalore and Mysore with easy access to airport, railway station and main shopping destinations. Our hotels in Bangalore are also located close to the main business centres which makes it convenient for our customers staying in these hotels. Operating hotels in prime locations would continue to be an important part of our business strategy.

Strong Management Team and Motivated and Efficient Work Force

The Company is managed by a team of experienced and professional managers focused on different aspects of hospitality industry including design, marketing, operations and finance. Our promoters and management have substantial experience in hotel industry. We believe that our professionals have been able to anticipate the changing consumer requirements in the hotel industry while achieving an optimal balance between costs and quality of service and enabled us to seize attractive business opportunities in the Industry.

Easy Access to Talented Pool of Human Resources

Due to the close affiliation with the Presidency College of Hotel Management, Bangalore and the regular training services provided by us to its students, we have access to a pool of trained talent to meet our growth needs. In a competitive environment where availability of trained manpower is advantageous, we gain through our association with the hotel management institute.

Presence of popular food and beverage outlets

We have a popular array of food and beverage outlets in our hotels. Our food and beverage outlets – Limelight, Geoffrey's, Tiger Trail, Paparazzi and Pinxx are popular among people of Bangalore. This ensures that we have an active clientele for these outlets apart from our room guests. This adds to our revenues and creates wide publicity for our hotels.

Business Strategy

We have plans to become one of the largest hospitality companies in India over the next few years. In the quest for growth, we have laid down a strategy which would enable us to achieve its stated growth objectives:

Focus on Business Clientele

We will continue to focus on business class hotels. The growing economy has brought about an increase in business travel, both domestic and international. Given our experience in managing business class hotels, we intend to expand further in this category, though we will continue to examine and evaluate opportunities in other categories like tourist, heritage, etc. as and when they arise. Business class hotels are less vulnerable to seasonality and provide stability and predictability for our earnings.

Combination of ownership and asset-light strategy

We will continue to manage capital efficiently and maintain our asset light strategy. The only property owned by us is Hotel Royal Orchid. The other properties are either leased to us, namely Royal Orchid Harsha and Royal Orchid Metropole or managed by us namely Royal Orchid Central. Similar operating

models will be extended to our new ventures. In line with the asset light strategy, we would also look at entering into joint venture arrangements with property owners which would reduce the initial expenditure towards acquisition and development of property. A case in point is Icon Hospitality Private Limited, the joint venture of the Company in which we have 51.22% equity stake.

Expanding presence to other major cities

We intend to expand presence to other major cities across India which exhibit similar socio-economic and demographic profiles. In line with this, we have already initiated development of properties in Hyderabad and Pune and are also exploring opportunities in other cities like Mumbai, Delhi, Chennai, etc. We will target to have a pan-India presence in the long term.

Stand-alone profitability

Our objective is to focus on profitable growth by ensuring that our projects are planned and conceived in a manner that each property is profitable on a stand alone basis. We use our internal skills to assess the viability of each individual property and plan our design and capital expenditure accordingly. Strong project management skills would enable us to monitor and control the project and operating costs.

Acquisitions and greenfield ventures

We are open to both growth through acquisitions and greenfield ventures. Greenfield ventures take around eighteen months for the property to become operational and hence acquisitions enable us to establish a quick foothold with minimal lead time. The acquisitions should have a close fit with the core values with which we have had success at our existing properties – business travellers, low capital and operational cost, prime locations, strong value proposition etc.

Operations

We currently operate four hotels in the state of Karnataka.

Hotel Royal Orchid

This is our flagship hotel owned by us and was set up in 2001 on land leased from the Karnataka State Tourism Development Corporation (“KSTDC”). Hotel Royal Orchid is a premium business hotel targeted towards the upscale business traveller and provides all the amenities and comforts which a business customer requires. The hotel has been granted a ‘three-star’ classification in February 2003 by HRACC, Government of India.

Ownership

Hotel Royal Orchid is owned and managed by us. A yearly lease rental is paid to KSTDC for the lease of their land admeasuring 1.875 acres. The lease deed entered into in August 1992 and subsequently amended by a registered deed of amendment dated August 4, 1997, is for a period of 30 years with an option to renew the lease for a further period of 30 years. The rent payable by us to KSTDC is Rs. 111,111 per acre per year for the first 10 years and thereafter there shall be an increase of 15% over the prevailing rent every 10 years. If the Company remains in arrears for a continuous period of six months, we shall be notified of the same. In the event that the Company does not make payment within 90 days of such notice, the lessor is entitled to terminate the lease.

Location

Hotel Royal Orchid is located on Airport Road about three Km away from the Bangalore airport and about five Km from M.G. Road which is the main commercial center of Bangalore. The hotel is also in close vicinity to several domestic and multinational information technology companies. The hotel is located next to the Karnataka Golf Association golf course.

Rooms

The property has 195 rooms operational currently – including 16 service apartments and nine suites. All the rooms offer facilities which a business traveler desires – digital safe, Wi-Fi connectivity, mini bar etc.

Room Category	No. of Rooms
Superior & Deluxe Rooms	94
Royal Club Rooms	50
Top Floor Rooms	26
Suites	9
Service Apartments	16
Total	195

We were one of the first hotels in Bangalore to offer service apartment facility. This facility is popular among overseas travellers who stay for longer durations. Service apartments offer a range of facilities including separate living and sleeping areas, a fully equipped kitchen and work space. They also offer the complete range of facilities provided by the hotel such as 24 hour room service, house keeping etc.

Food & Beverage Outlets

Hotel Royal Orchid has three food and beverage outlets – Limelight, Geoffrey's and Ginseng.

Limelight: Limelight is the 24 hour multi-cuisine coffee shop. Limelight also has a breakfast, lunch and dinner buffet featuring food from around the world. Apart from in-house guests the restaurants attracts guests from a number of corporates in the vicinity.

Geoffrey's: Geoffrey's is the pub restaurant which offers a selection of drinks and a modern global menu, Geoffrey's is modelled on the lines of an English Pub. Geoffrey's is a chain of pubs located in major cities in India. We pay a license fee which is 1% of the total sales achieved after deduction of taxes.

Ginseng: Ginseng is the new restaurant opened in Hotel Royal Orchid in August 2005. Ginseng serves Chinese cuisine.

Banquet Halls and Other Facilities

Hotel Royal Orchid has two banquet halls in operation viz. Seasons and Autumn.

Seasons: Seasons covers over 3200 sq. ft. of conference area space and can seat upto 300 people at one time. The room can be split into two separate rooms (Seasons 1 and 2) of equal size. Seasons also offers a pre - function area with a view of the golf course.

Autumn: Autumn covers about 1700 sq. ft. of conference area space and can seat upto 150 people at one time. The room can be split into two separate rooms (Autumn 1 and Autumn 2) of equal size.

A new banquet hall is under construction. This would be ready by December 2005. This would have a seating capacity of 300.

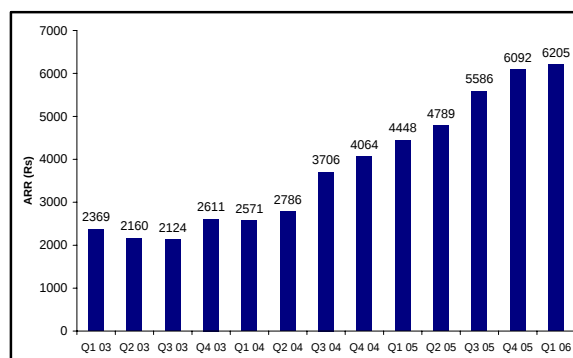
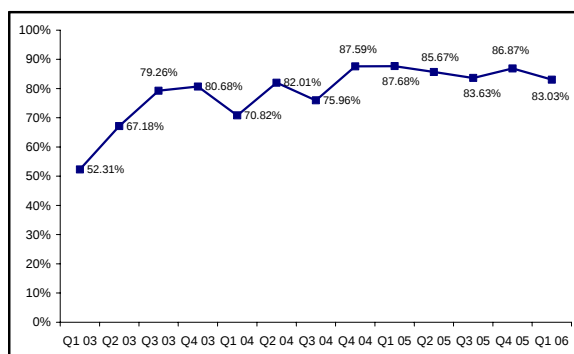
The hotel also offers the following facilities:

- Roof-top temperature controlled swimming pool and jacuzzi
- Health club and fitness centre
- Travel desk

Business Performance

Hotel Royal Orchid has registered good growth in operating performance with continued high occupancy rates and average room rates (ARR). The trend in occupancy rates and ARR is indicated in the following graph:

Quarterly Occupancies for the Period Q1 FY 2003-Q1 FY 2006	Quarterly ARR for the Period Q1 FY 2003-Q1 FY 2006
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Source: Company

The occupancy rates are typically higher during the third and fourth quarters. However, Hotel Royal Orchid has had consistent occupancy rates in FY 2005. The ARR's have recorded a steady increase over the past three years driven by growing demand and addition and upgradation of service offerings. The high occupancy rates and increasing ARR's contribute to a healthy growth in room revenues.

Royal Orchid Central

Royal Orchid Central is a business hotel located at Manipal Centre Complex, 47/1, Dickenson Road, Bangalore. The hotel is situated in the prime M.G. Road area in Bangalore. Royal Orchid Central is a boutique hotel targeted towards middle level and senior level executives.

Ownership

The Company has entered into a Hotel Operation Agreement dated April 4, 2003 with its subsidiary Icon Hospitality Private Limited for managing Royal Orchid Central. Icon Hospitality Private Limited has taken on lease the Royal Orchid Central property measuring 24,906 square feet with a built up area of 84,545 square feet, from Sacred Hospitality Private Limited vide lease agreement dated January 30, 2003 for a period of five years expiring on January 31, 2008. The rent payable under the lease deed is Rs. 0.5 million per month. The lease deed may be terminated by the lessor upon 6 months notice if the lessee defaults in the performance of any of its obligations under the deed. Further, Icon Hospitality Private Limited has entered into an 'agreement to hire' dated January 30, 2003 with Sacred Hospitality Private Limited for the hire of the fittings and fixtures. The rent payable under the agreement is 33% of the total net revenue from room sales subject to a minimum amount of Rs.30 million with effect from July 1, 2005. Commencing July 1, 2010 the minimum guaranteed amount payable shall escalate at the rate of 15% every three years. The term of the hire agreement shall run co-terminus with the lease deed dated June 25, 2004.

Pursuant to the said lease deed, Icon Hospitality Private Limited and Sacred Hospitality Private Limited executed a lease deed dated June 25, 2004 extending the term of the lease till January 31, 2028 with an option to renew the same by execution of a separate deed. All other terms of the lease remain unchanged from the lease deed dated January 30, 2003.

By virtue of the Hotel Operation Agreement dated April 4, 2003 executed with Icon Hospitality Private Limited, the Company operates and manages Hotel Royal Orchid Central. The term of the agreement is for a period of 25 years. In consideration thereof, we receive an annual fee of 18% of the net profit of Royal Orchid Central. The hotel operation agreement may be terminated by either party by giving written notice of at least 90 days.

Location

Royal Orchid Central is located at the heart of the city's business and shopping districts and is a short distance from Bangalore's airport and railway stations.

Rooms

Royal Orchid Central features 130 guest rooms the breakup of which is given below

Room Category	No. of Rooms
Studio Rooms	18
Park Deluxe	70
Club Rooms	37
Suites	5
Total	130

The rooms at Royal Orchid Central are currently being renovated. 55 rooms have already been renovated and the balance rooms are expected to be renovated by the end of FY2006.

Food and Beverage

Royal Orchid Central has two food and beverage outlets – Pinxx and Paparazzi.

Pinxx: Pinxx is the kitchen & lounge at Royal Orchid Central. Pinxx opened in October, 2004. Designed by Mumbai based Designer's Group, the large integrated space has 3 distinct areas: the lobby level lounge, an outdoor alfresco piazza and the restaurant. Each area while distinct in character, flows seamlessly over two floors of the hotel giving space and privacy to guests. Pinxx has a daily buffet breakfast and lunch which attracts many people besides our hotel guests.

Paparazzi: Paparazzi is a new rooftop restaurant at Royal Orchid Central which was opened in September 2005. Interiors done in glass overlooking the Ulsoor lake and a live jazz band give a unique ambience to the restaurant.

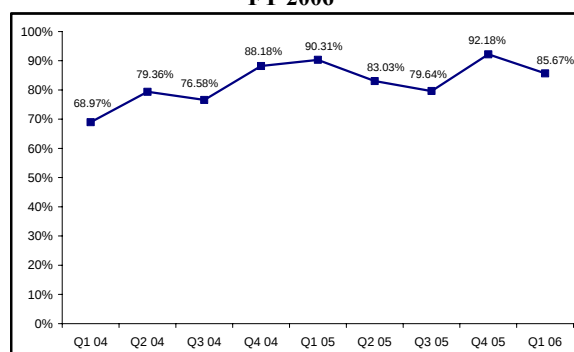
Banquet Halls

Royal Orchid Central has four banquet halls which have a combined area of 3755 square feet. The Capacity of each hall is given below:

Name	Capacity
Pinewood	110
Redwood	55
Maple Leaf	25
Orange County	40

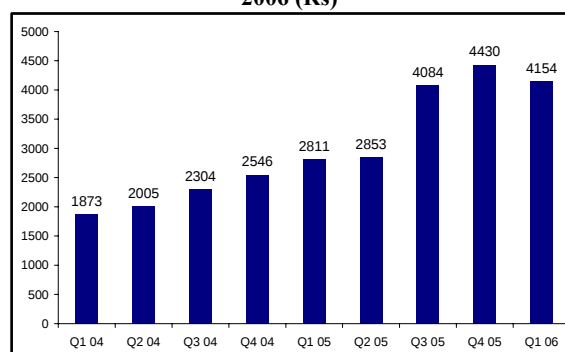
Business Performance

Quarterly Occupancies for the Period Q1 FY 2004-Q1 FY 2006



Source: Company

Quarterly ARR for the Period Q1 FY 2004-Q1 FY 2006 (Rs)



The occupancies in Royal Orchid Central have shown an increase in FY05 in comparison to FY 04. There has been an increase in quarterly occupancy rates in FY 05 over corresponding quarters in FY 04. The quarterly ARR's have recorded an increase pursuant to the ongoing renovation in Royal Orchid Central. The rooms which are already renovated yield higher ARR's than the remaining rooms.

Royal Orchid Harsha

Royal Orchid Harsha was the first hospitality venture of Mr. Chander K. Baljee. Royal Orchid Harsha is targeted towards the economy business traveller and caters to middle level and junior level executives. In the year 2001, Royal Orchid Harsha came into our fold when the property was leased to us.

Ownership

The Company has entered into a Lease Deed dated September 15, 2005 with Hotel Stay Longer Private Limited and Baljees Hotels and Real Estates Private Limited (both companies promoted by Mr. Chander K Baljee) in respect of Royal Orchid Harsha located at No. 11, Venkataswamy Naidu Road, Shivajinagar, Bangalore. The Lease Deed is for a period of 11 months renewable at the option of the Lessee for such term as may be mutually agreed upon by the parties. As per the said Lease deed the Company has agreed to pay a monthly lease rental of Rs. one million or 33% of the room revenues of Royal Orchid Harsha, whichever is higher. The said lease rentals shall be paid to Hotel Stay Longer Private Limited and Baljees Hotels and Real Estates Private Limited in the proportion of 20% and 80% respectively. In the event that the lease rents remain in arrears for any three months, the lessor shall be entitled to terminate the said lease deed. We have also furnished to the lessor an amount of Rs. 10 million towards interest free refundable security deposit.

Location

Royal Orchid Harsha is situated in the prime business district of Cunningham Road in Bangalore. The property is very close to business centers like M.G Road and landmarks like the Vidhana Soudha (legislative assembly of Karnataka).

Rooms

Harsha has 80 rooms of various categories indicated below:

Type of room	No. of rooms
Standard Rooms	36
Executive Rooms	19
Deluxe Rooms	21
Suites	04
Total	80

Food and Beverage

Tiger trail is the food and beverage outlet in Royal Orchid Harsha.

Tiger Trail: Tiger Trail is an open-hearth restaurant serving North Indian cuisine. With its thematic interiors and authentic Indian cuisine this restaurant is a popular Indian restaurant in Bangalore.

Banquet Halls

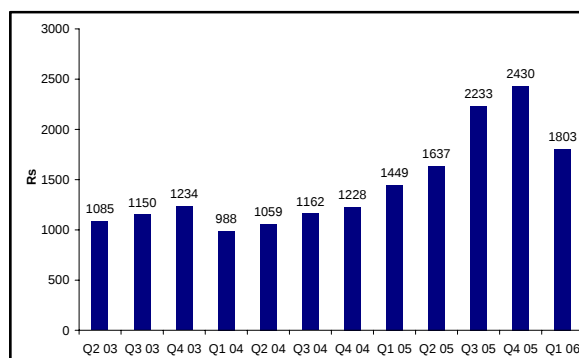
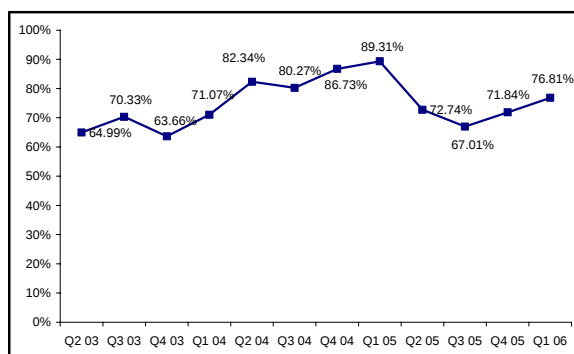
Royal Orchid Harsha has four banquet halls .The individual capacity of each banquet hall is listed below

Name	Capacity
The Orchid Room	300
Golden Tulip	100
Daffodils	100
Board Room	70

Business Performance

**Quarterly Occupancies for the Period Q2 FY 2003 to
Q1 FY 2006**

**Quarterly ARR for the Period Q2 FY 2003 to Q1 FY
2006**



Royal Orchid Harsha has registered good growth in operating performance with continued high occupancy rates and average room rates. The room rentals of Royal Orchid Harsha were increased in the second half of FY 2005 which resulted in a marginal decrease in occupancy.

Royal Orchid Metropole

Royal Orchid Metropole is a heritage hotel in Mysore operated by the Company. Royal Orchid Metropole has been leased from Jungle Lodges and Resorts Limited in October 2004.

Ownership

The Company has entered into a Management Agreement dated May 26, 2004 with the Jungle Lodges and Resorts Limited by virtue of which the Company was given possession of Royal Orchid Metropole and the right to operate and manage it. This hotel property is classified as a heritage property by the Government of Karnataka. The property has been handed over to the Company to refurbish and operate the same. The Agreement is for a period of 15 years. The Company has paid an amount of Rs.11 million as upfront fee on the execution of the agreement. The Company is required to pay an annual fee of Rs. 6.5 million for the first year and the same shall increase by Rs.0.5 million every year for the remaining term. The parties may terminate the agreement prior to the expiry of its term by giving a 30 days notice to that effect to the other party in the event of a material breach of the terms of the agreement. In the event of early termination, we have agreed to hand over the property back to Jungle Lodges and Resorts Limited.

Location

Hotel Metropole is located on 5, Jhansi Laxmi Bai Road at the heart of Mysore, just a few minutes away from the Railway Station. It is also in close proximity to the city's major tourist attractions like the Mysore Palace. Mysore, located around 130 kilometers from Bangalore, is fast becoming an important business centre with many of the large Indian software companies establishing operations in Mysore. The Bangalore – Mysore expressway, projected to be completed in 12 months, will further reduce travel times and make Mysore more accessible for business travellers.

Rooms

Metropole has 30 well decorated rooms furnished with hand crafted antiques. Metropole has three different types of rooms indicated below:

Type of room	No. of rooms
Royal Wing Rooms	14
Heritage Wing Rooms	12
Heritage Suite	04
Total	30

Food and Beverage

Metropole has one restaurant - Tiger Trail. Artistically done with paintings to match the regal look of the hotel, the restaurant serves authentic Indian food. It also has a bar called Scandel.

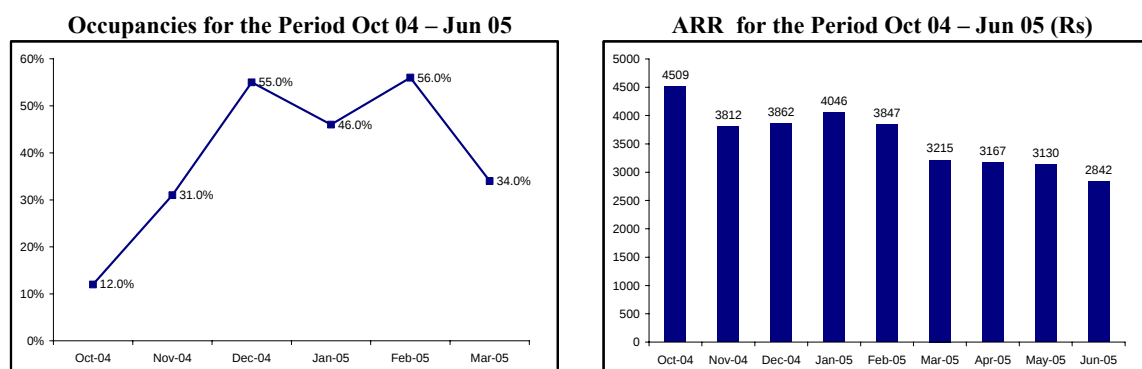
Banquet Halls

Royal Orchid Metropole has two banquet halls with a combined area of 1060 square feet. The capacity of each individual hall is given below

Name	Capacity
High Court	75
Lower Court	20

Business Performance

The occupancy and ARR growth over FY2005 can be seen in the data for a few months indicated in the graph below:



Sales and Marketing

We have a single corporate sales team managing the sales and marketing activities of the entire group of hotels. The corporate sales team is responsible for corporate rate contracts, managing international contracting and electronic distribution channels. Regional sales offices have been set up at key source markets such as Chennai, Mumbai and Hyderabad. Additionally General Sales Agents (GSAs) have been appointed in Ahmedabad and Delhi. In addition to the corporate sales the individual hotels have a dedicated banquet sales team to sell conferences and banquets including outdoor catering and office catering.

Marketing and corporate communication department looks after the hotel branding and advertising and also publishes the bi-monthly hotel communiqué.

Reservations

The reservations for all our hotels is through a central reservation system (CRS) located in Bangalore which is web based and offers real time online booking facility for quicker and better customer interaction. The CRS also facilitates the usage of yield management systems between the entire hotel inventory to maximise space utilisation and revenue management.

Brand Strategy

Previously, the various group hotels had different names with independent identities. With the need to affirm the Royal Orchid group identity we have established Royal Orchid as our flagship brand. Going forward all our premier business hotels would carry the brand name 'Hotel Royal Orchid' while other business hotels would operate under the 'Royal Orchid Central' brand name.

Our Competition

Our competition comes from existing international and domestic hotels in Bangalore and Mysore. As we expand to Hyderabad and Pune we will have to cope with competition from hotels with existing operations in these cities. We believe that our cost effective processes, efficient systems for designing, setting up and operating our hotels, our network and goodwill in the market provide us with the requisite competitive advantage to deal with competition.

Agreements with Third Parties:

Insurance

Our immovable and moveable properties have been insured. Set out below are details of the insurance policies:

Hotel Royal Orchid

- A. Policy No:** OG 06 1701 9930 0000 0013
Insurer Bajaj Allianz General Insurance Company Limited
Insured Royal Orchid Hotels Limited
- Address of Insured** No.1, Golf Avenue, Adjoining KGA Golf Course, Airport Road, Bangalore 560 008
- Policy Period** 00:00 hrs on April 1, 2005 to March 31, 2006 Midnight
- Insured Premises** Same as Above

Details of Coverage

Insurance Cover	Item Description	Sum Insured/ Limit of Liability
Burglary & Robbery incl. Theft	Contents of Premises	Rs. 25,00,000
Money	Money in Transit Money in Safe/ Counter	Rs. 2,00,000 Rs. 2,00,000
Plate Glass	Fixed Glass in Hotel	Rs. 5,00,000
Breakdown of Hotel Equipments	As per Schedule	Rs. 1,43,98,000
Electronic Equipment	As per Schedule	Rs. 9,25,000
Fidelity Guarantee	Handling of cash and financial instruments	Rs. 2,00,000
Personal Accident	Comprehensive cover For all Non-ESI employees	Rs. 25,00,000 Rs. 25,00,000
Public Liability	Limit per accident Aggregate limit	Rs.1,00,000 Rs.2,00,000
Neon Signs	Outside the hotel building	Rs. 50,000

The total premium payable inclusive of service tax is Rs. 96,431/-.

- B. Policy No:** OG-06-1701-4001-0000 0027
Insurer Bajaj Allianz General Insurance Company Limited
Product Standard Fire and Special Perils Policy
Insured Royal Orchid Hotels Limited
- Address of Insured** No.1, Golf Avenue, Adjoining KGA Golf Course, Airport Road, Bangalore 560 008
- Policy Period** 00:00 hrs on April 1, 2005 to March 31, 2006 Midnight

Property Description	Sum Insured
Building	Rs. 161,800,000

Plinth & Foundation	Rs. 44,600,000
Plant & Machinery	Rs. 8,00,00,000
Furniture Fixtures and Fittings	Rs. 10,00,00,000
Stock	Rs. 40,00,000
Kitchen Equipments	Rs. 75,00,000
Computers, Equipments, Accessories	Rs. 25,00,000
TOTAL	Rs. 400,400,000

The total premium payable inclusive of service tax is Rs. 8, 30,291/- per annum

Royal Orchid Central

A	Policy No	OG-06-1704-4001-00000426
	Insurer	Bajaj Allianz General Insurance Company Limited
	Product	Standard Fire & Special Perils and Addons
	Policy Period	00:00 hrs May 10 2005 to May 9, 2006 Midnight
	Name of Insured	Sacred Hospitality Co. Ltd., (as lessee)
	Policy Sum Insured	Rs. 19,24,75,000
	Total Premium	Rs. 5,67,021/-
B	Policy No	2005/070300/48/05/0068
	Insurer	United India Insurance Company Limited
	Product	Compact Policy
	Policy Period	00:00 hrs May 10 2005 to May 9, 2006 Midnight
	Name of Insured	Sacred Hospitality Co. Ltd., (as lessee)
	Policy Sum Insured	Rs. 8,61,48,000/-
	Total Premium	Rs. 2,20,841/-

Royal Orchid Harsha

A	Policy Number	OG-06-1701-9930-00000053
	Insurer	Bajaj Allianz General Insurance Company Limited
	Product	Special Contingency
	Period Of Insurance	00:00 hrs July 29, 2005 to July 28, 2006 Midnight
	Insured Name	Hotel Harsha (Proprietor – Royal Orchid Hotels Ltd)
	Sum Insured	Rs. 3,71,05,000/-
	Total Premium	RS. 82,650/-
B	Policy No	OG-06-1701-4001-00001484
	Insurer	Bajaj Allianz General Insurance Company Limited
	Product	Standard Fire & Special Perils and Addons
	Policy Period	29-JUL-2005 TO 28-JUL-2006 midnight
	Name of Insured	Hotel Harsha (Proprietor – Royal Orchid Hotels Ltd) and various financial institutes
	Policy Sum Insured	Rs. 11,86,20,000
	Total Premium	Rs. 2,80,878/-

Royal Orchid Metropole

A	Policy No	421400/0/0/F/739/2005
	Insurer	Oriental Insurance Company Limited
	Product	Standard Fire & Special Perils and Addons
	Policy Period	November 3, 2004 to November 2, 2005

	Name of Insured	Hotel Metropole, Mysore
	Policy Sum Insured	Rs. 67,01,000/-
	Total Premium	Rs. 14,031/-

B	Policy No	421400/10/47/Engg/043/2005
	Insurer	Oriental Insurance Company Limited
	Product	Machiner Breakdown policy
	Policy Period	November 3, 2004 to November 2, 2005
	Name of Insured	Hotel Metropole, Mysore
	Policy Sum Insured	Rs. 26,37,000/-
	Total Premium	Rs. 67,035/-

C	Policy No	42/2005
	Insurer	Oriental Insurance Company Limited
	Product	Electronic Equipment Insurance
	Policy Period	November 3, 2004 to November 2, 2005
	Name of Insured	Hotel Metropole, Mysore
	Policy Sum Insured	Rs. 6,57,000/-
	Total Premium	Rs. 7,240/-

D	Policy No	563/2005
	Insurer	Oriental Insurance Company Limited
	Product	Television Insurance
	Policy Period	November 3, 2004 to November 2, 2005
	Name of Insured	Hotel Metropole, Mysore
	Policy Sum Insured	Rs. 3,00,000/-
	Total Premium	Rs. 4,959/-

E	Policy No	564/2005
	Insurer	Oriental Insurance Company Limited
	Product	Plate Glass Insurance
	Policy Period	November 3, 2004 to November 2, 2005
	Name of Insured	Hotel Metropole, Mysore
	Policy Sum Insured	Rs. 8,74,000/-
	Total Premium	Rs. 19,263/-

F	Policy No	879/2005
	Insurer	Oriental Insurance Company Limited
	Product	Money Insurance
	Policy Period	November 3, 2004 to November 2, 2005
	Name of Insured	Hotel Metropole, Mysore
	Policy Sum Insured	Rs. 2,00,000/-
	Total Premium	Rs. 605/-

Intellectual Property Rights

We own and use certain trade marks. The details of the trade marks owned and used by the Company and the status with respect to the same are indicated in the following table:

Sl No.	Representation of Trademark	Application Number and Class	Date of Application	Status
1.	Royal Orchid Hotels	1061234, 1061236. Class: 16	November 19, 2001	Registered
2.	Royal Orchid Hotels	1291696, 1291697. Class: 42	June 21, 2004	Publication
3.	Pinxx	1373211 Class: 42	June 21, 2005	Application under process
4.	Royal Orchid	1380958, 1380959, 1380960	August 22, 2005	Application

	Hotels	Class: 42		under process
5.	Royal Orchid Towers	1380956, 1380957 Class: 42	August 22, 2005	Application under process
6.	Royal Orchid Central	1380954, 1380955 Class: 42	August 22, 2005	Application under process
7.	Royal Orchid Harsha	1380963, 1380964 Class: 42	August 22, 2005	Application under process
8.	Royal Orchid Metropole	1380961, 1380962 Class: 42	August 22, 2005	Application under process
9.	Ginseng	1388993, 1388995 Class 42	September 28, 2005	Application under process
10.	Paparazzi	1388994, 1388997 Class 42	September 28, 2005	Application under process
11.	Hotel Royal Orchid	1388995 Class 42	September 28, 2005	Application under process
	Used as Licensee			
12.	Geoffrey's	Vide a Trademark license agreement dated July 28, 2004 with Sarovar Park Plaza Hotels and Resorts Private Limited		

Restrictive Covenants under our Loan Agreements

We have entered into agreements with State Bank of Hyderabad for availing of credit facilities. These agreements contain certain restrictive covenants, some of which require the prior permission of the Banks, inter alia, alteration of our capital structure disposal of the movable assets hypothecated etc.

We have accordingly by our letter dated September 14, 2005 sought the consent of the State Bank of Hyderabad to proceed with this Issue. Subsequent to the same, we have obtained the consent of the State Bank of Hyderabad by their letter dated September 23, 2005.

OUR INDEBTEDNESS

The following is a summary of Secured Loans taken by the Company as on June 30, 2005:

<i>(Amounts in Rs millions)</i>				
		30 June 2005	31 March 2005	31 March 2004
Term loans from banks	(a)	192.16	192.16	208.00
Vehicle loans	(b)	4.16	4.47	0.47
Interest accrued and due on term loans			1.34	-
		196.32	197.97	208.47

Notes:

- a) During the year ended 31 March 2004, the Company availed a term loan facility of Rs 250 million from the Housing and Urban Development Corporation of India ('HUDCO') for the expansion activities of the Company that carried an interest rate of 11.25 per cent per annum which was subsequently revised to 9.75 per cent per annum. Of the above, the Company availed Rs 208 million with the balance facility remaining unutilised. This loan was repayable in 36 quarterly instalments of Rs 6.9 million each ending in June 2013 and was secured against the land and buildings of Royal Orchid Hotel and Royal Orchid Harsha with an escrow over the collections from sales settled through credit cards at both hotels.

Additionally, this borrowing was backed by the personal guarantees of Mr. Chander K Baljee, the Managing Director of the Company and Mrs. Sunita Baljee, Director of the Company and a corporate guarantee from Baljee Hotels and Real Estate Private Limited, a company under the same management.

On 16 December 2004, the Company was sanctioned a term loan from the State bank of Hyderabad ('the Bank') for Rs 300 million. The Company drew down Rs 192 Million of which Rs 154 million was utilised towards the repayment of the loan outstanding from HUDCO with the balance of Rs. 38 million being utilised for the purposes of the expansion by the Company. This loan carries an interest rate of 3 per cent below the Prime Lending Rate ('PLR') of the Bank subject to a maximum of 9.75 per cent per annum. This loan is secured by way of an equitable mortgage of the land and building of the Royal Orchid Hotel and a first charge on the present and future fixed assets of the Company.

Additionally, this borrowing has also been backed by the personal guarantees of the Mr. Chander K. Baljee, the Managing Director and Mrs. Sunita Baljee, Director of the Company and a corporate guarantee from Baljee Hotels and Real Estate Private Limited. This loan is repayable in 24 quarterly installments of Rs. 12.5 million each, commencing from 31 December 2005.

The Company also has an overdraft facility with the State Bank of Hyderabad that has a limit of Rs. 10 million. This facility carries an interest rate equal to the PLR of the Bank and is secured by the hypothecation of the present and future inventory and receivables of the Company and an extension of the charge on all the fixed assets of the Company in addition to personal guarantees of the Mr. Chander K. Baljee, Mrs. Sunita Baljee, and a corporate guarantee from Baljee Hotels and Real Estate Private Limited, The Company has not utilised this facility as at 31 March 2005.

- b) Other loans represent loans taken to purchase vehicles that are secured by the hypothecation of the vehicles concerned these loans carry interest rates varying between 6.00% and 8.50% per annum and are repayable through 2009.

Amounts due in one year as at June 30, 2005 are as follows:

Term loans	37.50
Other loans	1.22
	38.72

Unsecured Loans

	30 June 2005	31 March 2005	31 March 2004
From others	1.28	1.28	7.00
	1.28	1.28	7.00

Note:

The amount outstanding as of 30 June 2005 represents amounts borrowed from a company under the same management. This loan is interest free and repayable on demand.

REGULATIONS AND POLICIES

Indian Regulation

In India there are no Central legislations that govern the hotel industry in particular. However, the Government of India approves projects for construction of hotels and then classifies the same as a star hotel.

Project approval and Star Classification of hotels from the Department of Tourism, Government of India

Under the Tourism Policy of the Government of India, any project seeking to establish a hotel in India, has an option to seek the classification of the proposed hotel in a star category. The classification in category is issued based on an application made to the Department of Tourism, Government of India. The HRACC inspects and assesses the hotel based on the facilities and services offered by the hotel against a fixed marks sheet, including the assessment of quality of facilities provided. Upon the hotel obtaining a qualifying mark prescribed for the particular status of star classification, and based on a recommendation of the HRACC, the hotel is conferred the status of a Star hotel by the Department of Tourism, Government of India.

The Government of India, Department of Tourism approves projects of two types: (i) approvals for starting a Star hotel without apartment facilities and (ii) approval for starting a Star Apartment Hotel. Both these types of approvals involve the same procedure in the following 2 stages: (i) the approval of the Project Report and (ii) the classification of the hotel as a star hotel.

The Central Excise Act, 1944

The Central Excise Act, 1944 provides that a person who is engaged in production or any process of production of any specified goods including liquor shall get himself registered with the proper officer as per the procedure / documentation laid down.

The Prevention of Food Adulteration Act, 1954.

The Prevention of Food Adulteration Act is a Central legislation and provides provisions for the prevention of adulteration of food. The Karnataka State Government has adopted the Central Act and further passed the Karnataka Prevention of Food Adulteration Rules, 1986 which enables any person/entity manufacturing / storing / selling food articles to be registered under the provisions of the Rules.

Environmental Laws, Rules & Regulations

The three major statutes in India which seek to regulate and protect the environment against pollution related activities in India are the Environment Protection Act, 1986, the Water (Prevention and Control of Pollution) Act 1974 and the Air (Prevention and Control of Pollution) Act, 1981. The basic purpose of these statutes is to control, abate and prevent pollution. In order to achieve these objectives, Pollution Control Boards, or PCBs, which are vested with diverse powers to deal with water and air pollution, have been set up in each state. The PCBs are responsible for setting the standards for maintenance of clean air and water, directing the installation of pollution control devices in industries and undertaking investigations to ensure that industries are functioning in compliance with the standards prescribed. These authorities also have the power of search, seizure and investigation if the authorities are aware of or suspect pollution. All industries and factories are required to obtain consent orders from the PCBs, which are indicative of the fact that the factory or industry in question is functioning in compliance with the pollution control norms laid down. These are required to be renewed annually.

The issue of management, storage and disposal of hazardous waste is regulated by the Hazardous Waste Management Rules, 1989 made under the Environment Protection Act. Under these rules, the PCBs are empowered to grant authorization for collection, treatment, storage and disposal of hazardous waste, either to the occupier or the operator of the facility.

In addition, the Ministry of Environment and Forests looks into Environment Impact Assessment (EIA). The Ministry receives proposals for expansion, modernization and setting up of projects and the impact

which such projects would have on the environment is assessed by the Ministry before granting clearances for the proposed projects.

Further, the Karnataka Government has passed rules and regulations to regulate trades within the State of Karnataka.

Karnataka Municipal Corporations Act, 1976

Hotels being forms of trade are required to obtain a trade license under the Karnataka Municipal Corporations Act, 1976. A Trade License is issued by the regional Medical Officer of Health, within whose jurisdiction the hotel is located. On receipt of an application for the trade license, Medical Officer of Health upon inspection of the premises based on certain fixed parameters and satisfaction, shall issue a Trade License in the name of the hotel.

OUR HISTORY AND CERTAIN CORPORATE MATTERS

Our History

The Company was incorporated in Bangalore on January 3, 1986 as a public limited company under the name and style of Universal Resorts Limited having its registered office at Royal Orchid Harsha, No.11, Park Road, Bangalore 560 051. The Registrar of Companies, Karnataka issued a Certificate of Commencement of Business dated February 3, 1986 in the name of Universal Resorts Limited. The authorized capital of the Company at the time of incorporation was Rs. 10 million.

Thereafter the name of the Company was changed to Royal Orchid Hotels Limited. We obtained the Fresh Certificate of Incorporation Consequent to Name Change on April 10, 1997. The authorized capital of the Company was thereafter increased from Rs 10 million to Rs. 40 million in the year 1997, from Rs.40 million to Rs.120 million in the year 2000 and thereafter to Rs.300 million as at present. A summary of the corporate information of the Company is provided below.

Name of the Company	Royal Orchid Hotels Limited
Date of Incorporation	January 3, 1986
Registration No	08-7392
Registered Office	Royal Orchid Harsha, No.11, Park Road, Bangalore 560 051.
Corporate Office	No.1, Golf Avenue, Adjoining KGA Golf Course, Airport Road, Bangalore 560 008
Corporate Status	Public Limited Company.
Subscribers to the Memorandum and Articles of Association	1. C. Baljee 2. D.R. Sikka 3. Chander K. Baljee 4. Sushil Baljee 5. Sangitha Sikka 6. Indira Sikka 7. Sunita Sikka
First Directors	1. C. Baljee 2. D.R. Sikka 3. Chander K. Baljee
Authorised Capital	Rs. 300,000,000
Comprising of	30,000,000 equity shares of Rs. 10/- each
Paid up Capital	Rs. 204,139,650
Comprising of	20,413,965 equity shares of Rs. 10/- each

Main Objects of the Company

Our main objects as contained in our Memorandum of Association are:

- 1 To carry on the business of and management and marketing of Hotels, Holiday Resorts, Villas, Lodgings, Stalls, Garages, Summer Houses, Chateaus, Castles, Inns, Hostels, Road Houses, Motels, Taverns, Rest Houses, Guest Houses.
- 2 To sell, serve and to distribute and to manage and market the manufacture of, selling, serving and distribution of comestible, eatables, victuals, meat, bread, bread stuffs, and all types of food stuffs and human consumables.
- 3 To sell and serve and distribute and to manage and market, selling, serving and distributing of soft drinks, aerated waters, beverages, both natural and artificial, fresh and canned vegetables and meats, fresh and canned food stuffs, fresh and canned fruits, dried fruits and to manufacture, grow, produce,

develop, process (including canning, cold storage, deep freezing de-hydration, baking, drying, bottling and packing) of all types of vegetables, fruits, meat, fish, spices and condiments.

- 4 To carry on the business of travel agents, hirers of motor and other vehicles, caterers for public amusements, hair dressers, perfumes, chemists, proprietors of clubs, bath, dressing rooms, laundries, reading rooms, writing rooms, news-paper and smoking room, libraries, places of amusements, recreation, sports, entertainments, and instruction of all kinds, departmental stores, agents for railway, shipping and airplane companies and carriers, theatrical and opera box office, proprietors, insurance agents.

The present business of the Company is as per the main objects as contained in the Memorandum of Association.

Changes in Memorandum of Association

Date	Changes
April 10 1997	Change of name of the Company from Universal Resorts Limited to Royal Orchid Hotel Limited
October 18, 1997	Increase in authorized capital from Rs. 10 million to Rs. 40 million.
July 14, 1999	Increase in authorized capital from Rs. 40 million to Rs. 120 million.
August 22, 2005	Increase in authorized capital from Rs.120 million to Rs. 300 million

Our Subsidiaries

The Company has two subsidiaries as per details give below

1. Icon Hospitality Private Limited

Icon Hospitality Private Limited is a private limited company incorporated on the January 28, 2003 under the provisions of the Companies Act, 1956 and bearing registration number 08 – 31516. The main object for which Icon Hospitality Private Limited has been incorporated is to carry on the business of a hotel. The registered office is situated at 47/1 Dickenson Road, Bangalore-560 042.

Icon Hospitality Private Limited has an authorized share capital of Rs. 10 million divided into 1,00,000 equity shares of Rs. 100/- each and a paid up share capital of Rs. 60,00,000 divided into 60,000 equity shares of Rs. 100/- each. This company is an unlisted company and it has not made any public or rights issue in the preceding three years. It has not become a sick company under the meaning of SICA and it is not under winding up.

Shareholding Pattern

In accordance with the terms of the Shareholders Partnership Agreement dated April 4, 2003, the shareholders and their percentage shareholding in Icon Hospitality Private Limited as on April 1, 2005 as evidenced by the Register of Members is as follows:

S. No	Shareholder	No. of Shares	Percentage
1.	Royal Orchid Hotels Limited	30,730	51.22%
2.	P. Dayananda Pai	17,270	28.78%
3.	Satish Pai	12,000	20.00%
	Total	60,000	100%

Constitution of Board

The Board of Directors of Icon Hospitality Private Limited are:

1. Chander K. Baljee
2. Sunita Baljee
3. P. Dayananda Pai
4. Arjun Baljee
5. Satish Pai

Icon Hospitality Private Limited has taken on lease Royal Orchid Central for a period of 25 years ending on December 31, 2027. Royal Orchid Hotels Limited has acquired the operation and management rights of Royal Orchid Central through a Hotel Operation Agreement with Icon Hospitality Private Limited.

Please refer to page 144 of 'Financial Information' for the restated financial statements of Icon Hospitality Private Limited.

Icon Hospitality Private Limited, the Company and Mr. P. Dayananda Pai have entered into a Shareholders Partnership Agreement dated April 4, 2003. The key terms of the Shareholders Partnership Agreement are as under:

- The Company and Mr. P. Dayananda Pai have agreed to invest in the share capital of Icon Hospitality Private Limited and hold shares in the proportion of 51.22% and 48.78% respectively.
- In the event of termination of the Hotel Operation Agreement dated April 4, 2003 executed between the Company and Icon Hospitality Private Limited, the revised shareholding pattern of Icon Hospitality Private Limited shall be as under:
 Royal Orchid Hotels Limited - 60%
 Mr. P. Dayananda Pai – 40%
- Icon Hospitality Private Limited shall not issue equity or equity-linked instruments as part of any subsequent round of financing without prior written approval of the Board.
- The day to day management of Icon Hospitality Private Limited shall be vested with the Company.
- Except with the affirmative vote of the Company, no resolution shall be passed in respect of inter alia, acquisition of shares or assets of other businesses, creation of joint ventures/ partnerships, mergers, demergers, consolidations, divestment of or sale of assets of the business, lease license or creation of charge in excess of Rs. 10,00,000/- etc.
- The agreement may be terminated by the parties by giving notice to at least 30 days, if any party commits breach of the terms of the agreement and does not remedy the same within 30 days of being notified of the same.

2. Royal Orchid Hyderabad Private Limited

Royal Orchid Hyderabad Private Limited was incorporated as a private limited company in Bangalore on September 12, 2005 with company registration no. 08- 37198. The registered office of the company is situated No.1, Golf Avenue, Adjoining KGA Golf Course, Airport Road, Bangalore 560 008. The main object of Royal Orchid Hyderabad Private Limited is to carry on the business of hotel, boarding, lodging, restaurant, bar, café, canteen, motel etc.

This company is an unlisted company and it has not made any public or rights issue in the preceding three years. It has not become a sick company under the meaning of SICA and it is not under winding up.

In accordance with the terms of the Shareholders Partnership Agreement dated September 15, 2005, the shareholders and their percentage shareholding in Royal Orchid Hyderabad Private Limited is as provided below:

S. No	Shareholder	No. of Shares	Percentage
1.	Royal Orchid Hotels Limited	10,200	51%
2.	Neeraj Agarwal	9,800	49%
	Total	20,000	100%

Constitution of Board

The Board of Directors of Royal Orchid Hyderabad Private Limited is constituted as below:

1. Chander K. Baljee
2. Sunita Baljee

Since Royal Orchid Hyderabad Private Limited has been incorporated on September 12, 2005, there are no audited financial statements for Royal Orchid Hyderabad Private Limited.

Shareholding Pattern

Royal Orchid Hyderabad Private Limited, the Company and Mr. Neeraj Agarwal have entered into a Shareholders Partnership Agreement dated September 15, 2005. The key terms of the Shareholders Partnership Agreement are as under:

- The Company and Mr. Neeraj Agarwal have agreed to invest in the share capital of Royal Orchid Hyderabad Private Limited and hold shares in the proportion of 51% and 49% respectively.
- The day to day management of Royal Orchid Hyderabad Private Limited shall be vested with the Company.
- The total strength of the Board of Directors of Royal Orchid Hyderabad Private Limited shall be 4 (four) Directors including the Chairman. The Company shall be entitled to nominate 2 directors on the Board of Royal Orchid Hyderabad Private Limited amongst whom one shall be the Chairman. Mr Agarwal shall be entitled to nominate 2 directors on the Board of Royal Orchid Hyderabad Private Limited.
- Royal Orchid Hyderabad Private Limited shall not issue equity or equity-linked instruments as part of any subsequent round of financing without prior written approval of the Board
- Except with the affirmative vote of the Company, no resolution shall be passed in respect of inter alia, acquisition of shares or assets of other businesses, creation of joint ventures/ partnerships, mergers, de-mergers, consolidations, divestment of or sale of assets of the business, lease license or creation of charge in excess of Rs. 10,00,000/- etc.
- The agreement may be terminated by the Parties, by giving a 30 days written notice, if the other party commits a breach of any of its obligations under the agreement or of any of the representations and warranties given by it, under the agreement or if any of the representations and warranties given under the agreement are found to be incorrect or false and the concerned party fails to remedy the said breach within 30 days of being notified of the same.

Shareholders Agreements

The Company has entered into the following shareholders' agreements:

A. Share Subscription Agreement dated October 4, 2005 between Royal Orchid Hotels Limited and some of its shareholders

The Company, Mr. Chander K Baljee, Mrs. Sunita Baljee, Mr. Arjun Baljee, Mr. Keshav Baljee, and WestBridge Ventures II Investment Holdings have entered into a Share Subscription Agreement dated October 4, 2005. WestBridge Ventures II Investment Holdings is a company duly incorporated under the laws of Mauritius and is registered with the SEBI as a foreign venture capital investor in accordance with the SEBI (Foreign Venture Capital Investor) Regulations, 2000 as amended from time to time.

The key terms of the Share Subscription Agreement are as under:

1. WestBridge Ventures II Investment Holdings had agreed to subscribe to and hold, either by itself or through its affiliates, 9,74,025 Equity Shares of Rs. 10/- each of the Company for a total consideration of Rs. 15,00,00,000/- (Rupees One Hundred and Fifty Million Only).
2. The Company has agreed to arrange to make an initial public offering on or before the January 4, 2006. It has been further agreed by the parties that in the event the Company fails to make an initial public offering on or before the January 4, 2006, WestBridge Ventures II Investment Holdings have the sole discretion to require the Company and the remaining parties to enter into a definitive shareholders agreement including standard veto rights, first refusal rights, tag along rights, drag along rights, information rights, etc for WestBridge Ventures II Investment Holdings. Further in the event that the parties fail to execute definitive agreements as stated above within a period of sixty days from January

4, 2006, Mr. Chander K Baljee, Mrs Sunita Baljee, Mr. Arjun Baljee and Mr. Keshav Baljee have agreed to ensure that WestBridge Ventures II Investment Holdings is able to sell its shareholding in the Company.

3. In the event the Company arranges to make an initial public offering by the January 4, 2006, WestBridge Ventures II Investment Holdings has agreed not to transfer its shareholding in the Company for a period of 6 months to be calculated from the January 4, 2006.
4. The parties have also agreed to ensure that one nominee of WestBridge Ventures II Investment Holdings is appointed as a director of the Company within 3 months of the listing of the shares of the Company.
5. The parties have also undertaken to ensure that WestBridge Ventures II Investment Holdings shall at all times exercise its votes through its appointed / nominated director at board and shareholders meetings of the Company held from time to time.

B. Share Purchase Agreement dated October 4, 2005 between Royal Orchid Hotels Limited and some of its shareholders

WestBridge Ventures II Investment Holdings, Mr. Chander K Baljee and the Company have executed a Share Purchase Agreement dated October 4, 2005 by virtue of which WestBridge Ventures II Investment Holdings have purchased from Mr. Chander K. Baljee 649,350 equity shares of the Company for a total consideration of Rs. 10,00,00,000/- (Rupees One Hundred Million Only).

WestBridge Ventures II Investment Holdings has agreed that in the event that the company makes an initial public offering, it shall not transfer its shareholding in the Company for a period of 6 months from the January 4, 2006.

C. Shareholders' Partnership Agreement dated April 4, 2003 relating to Icon Hospitality Private Limited

Icon Hospitality Private Limited, the Company and Mr. P. Dayananda Pai have entered into a Shareholders Partnership Agreement dated April 4, 2003. The key terms of the Shareholders Partnership Agreement are as under:

- The Company and Mr. P. Dayananda Pai have agreed to invest in the share capital of Icon Hospitality Private Limited and hold shares in the proportion of 51.22% and 48.78% respectively.
- In the event of termination of the Hotel Operation Agreement dated April 4, 2003 executed between the Company and Icon Hospitality Private Limited, the revised shareholding pattern of Icon Hospitality Private Limited shall be as under:

Royal Orchid Hotels Limited - 60%

Mr. P. Dayananda Pai – 40%

- Icon Hospitality Private Limited shall not issue equity or equity-linked instruments as part of any subsequent round of financing without prior written approval of the Board
- The day to day management of Icon Hospitality Private Limited shall be vested with Royal Orchid Hotels Limited.
- Except with the affirmative vote of the Company, no resolution shall be passed in respect of inter alia, acquisition of shares or assets of other businesses, creation of joint ventures/ partnerships, mergers, demergers, consolidations, divestment of or sale of assets of the business, lease license or creation of charge in excess of Rs. One million etc.
- The agreement may be terminated by the parties by giving notice to at least 30 days, if any party commits breach of the terms of the agreement and does not remedy the same within 30 days of being notified of the same.

D. Shareholders Partnership Agreement dated September 15, 2005 relating to Royal Orchid Hyderabad Private Limited

Royal Orchid Hyderabad Private Limited, the Company and Mr. Neeraj Agarwal have entered into a Shareholders Partnership Agreement dated September 15, 2005. The key terms of the Shareholders Partnership Agreement are as under:

- The Company and Mr. Neeraj Agarwal have agreed to invest in the share capital of Royal Orchid Hyderabad Private Limited and hold shares in the proportion of 51% and 49% respectively.
- The day to day management of Royal Orchid Hyderabad Private Limited shall be vested with Royal Orchid Hotels Limited.
- The total strength of the Board of Directors of Royal Orchid Hyderabad Private Limited shall be four directors including the Chairman. The Company shall be entitled to nominate 2 directors on the Board of Royal Orchid Hyderabad Private Limited amongst whom one shall be the Chairman. Mr Agarwal shall be entitled to nominate 2 directors on the Board of Royal Orchid Hyderabad Private Limited.
- Royal Orchid Hyderabad Private Limited shall not issue equity or equity-linked instruments as part of any subsequent round of financing without prior written approval of the Board
- Except with the affirmative vote of the Company, no resolution shall be passed in respect of inter alia, acquisition of shares or assets of other businesses, creation of joint ventures/ partnerships, mergers, de-mergers, consolidations, divestment of or sale of assets of the business, lease license or creation of charge in excess of Rs. One million etc.
- The agreement may be terminated by the Parties, by giving a 30 days written notice, if the other party commits a breach of any of its obligations under the agreement or of any of the representations and warranties given by it, under the agreement or if any of the representations and warranties given under the agreement are found to be incorrect or false and the concerned party fails to remedy the said breach within 30 days of being notified of the same.

Other Agreements

Trademark License Agreement for the use of the name 'Geoffrey's':

The Company has entered into a Trademark License Agreement dated July 28, 2004 with Sarovar Park Plaza Hotels and Resorts Private Limited (as licensor) pursuant to which the Company has been licensed to use the trademark and name 'Geoffrey's' within its premises at the Hotel Royal Orchid. The term of the agreement is for a period of 5 years commencing on the August 1, 2004 ending on the August 1, 2009.

The Company has agreed to pay a license fee equivalent to 1% of the total sales achieved in the premises after deduction of tax at source.

The agreement may be terminated by the licensor in case the Company fails to pay the monthly license fees and remains in arrears for two months from the date the same became due or in the event the Company commits a breach of any of the terms and conditions as provided in the agreement. The parties may also terminate the agreement by giving a written notice of 3 months to the other party of its intention to terminate the agreement

Strategic Partners and Financial Partners

We do not have any strategic or financial partners.

OUR MANAGEMENT

Board of Directors

The following table sets forth details regarding the Board of Directors as of the date of filing the Draft Red Herring Prospectus with SEBI:

S. No.	Name, Designation, Father's Name, Address, Occupation	Age	Date of Appointment and Term	Other Directorships
1.	Mr. Chander K. Baljee (Chairman and Managing Director) S/o Mr. C. Baljee No. 124-A, Defence Colony 3rd Main, Indiranagar Bangalore – 560 038 <i>Business</i>	54 years	First Date of Appointment: January 3, 1986 Term: 5 years with effect from June 22, 2005	1. Baljees Hotels and Real Estates Private Limited 2. Hotel Stay Longer Private Limited. 3. Icon Hospitality Private Limited 4. Harsha Farms Private Limited 5. Royal Orchid Banjara Private Limited 6. Royal Orchid Hyderabad Private Limited.
2.	Mr. Sunil Sikka (Director) S/o D R Sikka 16, Friend's Colony (West) New Delhi – 110 065 <i>Business</i>	48 years	Date of Appointment: September 30 , 2000 Term: Retires by rotation	None
3.	Mr. Naresh K. Malhotra (Independent Director) S/o Som Dutta Malhotra No. 31, II nd Main, Defence Colony, Bangalore - 560038 <i>Business</i>	58 years	Date of Appointment: June 18, 2005. Term: Retires by rotation	1. N.M.Agencies Private Limited. 2. Leisure & Lifestyle Information Services Private Limited. 3. CCD Daily Bread Private Limited. 4. Amalgamated Bean Coffee Trading Co. Limited. 5. Venture Infotek Limited, Mauritius. 6. Venture Infotek Global Private Limited. 7. Venture Infotek Inc. 8. A.N.Coffee Day International Limited, Cyprus. 9. Coffee Day Gastronomie und Kaffeehandels GmbH, Austria. 10. Tarang Software Technologies Private Limited. 11. Gignext Solutions India Private Limited. 12. Balan Natural Food (P) Limited.
4.	Mr. Jaithirth Rao (Independent Director)	52 years	Date of Appointment:	1. Mphasis BFL Limited. 2. Cadbury India Limited.

S. No.	Name, Designation, Father's Name, Address, Occupation	Age	Date of Appointment and Term	Other Directorships
	S/o Raghavendra Pandu Ganga 61, Umang Kashibai Navrange Marg Gamdevi Mumbai - 400007 <i>Service</i>		July 18, 2005 Term: Retires by rotation	3. The Arvind Mills Limited. 4. IDFC Asset Management Company Limited. 5. Gabriel India Limited. 6. Rao Properties Private Limited. 7. Sanvijay Tours and Travels Private Limited.
5.	Mr. R.V.S Rao (Independent Director) S/o N. Ramchandraiah 332/6, 14 th Main RMV-Sadashivnagar Bangalore- 560 080 <i>Consultant</i>	61 years	Date of Appointment: August 27, 2005 Term: Retires by rotation	1. Can Fin Homes Limited 2. Infrastructure Development Corporation (Karnataka) Limited 3. Tamilnadu Urban Infrastructure Trustee Co. Ltd 4. Tamilnadu Rural Housing Corporation Limited 5. Indian Association for Savings and Credit 6. HDFC Realty Limited 7. HDFC Holdings Limited 8. NDB Housing Bank, Sri Lanka

Details of Directors

Mr. Chander K. Baljee, 54, Chairman and Managing Director. For more details on Mr. Chander K. Baljee please refer to "Our Promoters" on page 81 of this Draft Red Herring Prospectus.

Mr Sunil Sikka, 48, Director is a post graduate in Commerce and has experience in export business.

Mr. Naresh K Malhotra, 58, Director. Mr. Naresh K. Malhotra is the Chief Executive Officer of Café Coffee Day. Mr. Malhotra was formerly the Senior Partner at KPMG's Bangalore office. He has over 29 years of experience in industry and consulting, and has held a number of senior management positions. He has a Bachelor of Commerce degree and is an associate member of the Institute of Chartered Accountants of India. His key areas of experience are in the power, real estate, construction, leisure & tourism, and food & beverage sectors.

Mr. Jaithirth Rao, 52, Director. He is currently the Chief Executive Officer of Mphasis BFL Limited. Prior to his current role, he has held several important positions with Citicorp including Country Manager in India. Mr. Jaithirth Rao is a management graduate from the Indian Institute of Management (Ahmedabad) and has a Master's Degree from the University of Chicago.

Mr. R.V.S Rao, 61, Director, is a Commerce and Law Graduate and a Fellow of Indian Institute of Bankers, Bombay. He is also life member of All India Management Association. He was appointed as Executive Director of HDFC in October 1999 and post superannuation, he is now a senior advisor to HDFC.

Remuneration of Directors

Mr. Chander K. Baljee

The members of the Company have vide resolution passed in the meeting held on August 22, 2005 approved the appointment of Mr. Chander K. Baljee as Managing Director of the Company for a period of five years with effect from June 22, 2005 on the following terms and conditions:

1. Salary : Rs 300,000 per month
2. Commission: 1 % of net profits of the Company
3. Perquisites and allowances including Rent free furnished accommodation or HRA to the extent of 20% of salary, Provident fund and superannuation fund contribution, LTA, bonus, gratuity etc. as per the rules of the Company

Commission to Non-Executive Directors

The members of the Company have vide resolution passed in the meeting held on September 21, 2005 have resolved to pay remuneration by way of commission to all non-executive directors, 1% of the net profits of the company to be distributed equally among all non-executive directors.

Sitting Fees

The Board of Directors of the Company have vide resolution passed in the meeting held on August 27, 2005 resolved that the sitting fee payable to the directors would be Rs. 5,000 per meeting.

Payment or benefit to officers of the Company

Except as stated in this Draft Red Herring Prospectus, no amount or benefit has been paid or given within the two preceding years or is intended to be paid or given to any of our officers except the normal remuneration for services rendered as Directors, officers or employees.

Corporate Governance

We have established a tradition of best practices in corporate governance. We have complied with the requirements of the applicable regulations, including the listing agreement with Stock Exchanges and the SEBI Guidelines, in respect of corporate governance, including constitution of the Board and Committees thereof. Our corporate governance framework is based on an effective independent Board, separation of the Board's supervisory role from the executive management and constitution of Board Committees, majority of them comprising of independent directors and chaired by an independent director to oversee critical areas.

We have a broad based Board of Directors constituted in compliance with the Companies Act and listing agreement with Stock Exchanges and in accordance with best practices in corporate governance. The Board of Directors functions either as a full Board or through various committees constituted to oversee specific operational areas. Our management provides the Board of Directors detailed reports on its performance on a quarterly basis.

The Board of Directors has five Directors of whom one is a whole time Director. The Chairman of the Board of Directors is our Managing Director.

Committees of the Board

Audit Committee

The terms of the Audit Committee comply with the requirements of Clause 49 of the listing agreement to be entered into with the Stock Exchanges. The committee consists of executive and non executive directors, with the majority being three Directors. The committee currently comprises of three members namely Mr. Naresh K. Malhotra, Mr. Jaithirth Rao and Mr. R.V.S Rao. Mr. Naresh K. Malhotra is the Chairman of our Audit Committee. Mr. G Tirupathi Rao is the Secretary of our Audit Committee.

The principal functions of the committee are to:

- review the Company's financial statements, before submission to, and approval by, the Board;
- review the Company's procedures for detecting fraud and whistle blowing and ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or other matters;
- review management's and the internal auditor's reports on the effectiveness of the systems for internal financial control, financial reporting and risk management;
- monitor the integrity of the Company's internal financial controls;
- assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks;
- review the internal audit program and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;

- receive a report on the results of the internal auditor's work on a periodic basis;
- review and monitor management's responsiveness to the internal auditor's findings and recommendations; and
- monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system.

Remuneration Committee

The Remuneration Committee consists of 3 non-executive Directors. The Committee currently comprises of three members namely Mr. Jaithirth Rao, Mr. Naresh K Malhotra and Mr. Sunil Sikka. Mr. Jaithirth Rao, is the Chairman of our Remuneration Committee. Mr Tirupathi Rao is the Secretary of our Remuneration Committee.

Investor Grievances and Share Transfer Committee

The Investor Grievances and Share Transfer Committee comprises of 3 members namely, Mr. Naresh K Malhotra, Mr. Jaithirth Rao and Mr. Chander K. Baljee. Mr. Naresh K Malhotra is the Chairman of this committee. Mr. G.Tirupathi Rao is the Secretary of this Committee. The Investor Grievances and Share Transfer Committee looks into redressal of shareholder and investor complaints, issue of duplicate/ consolidated share certificates, allotment and listing of shares and review of cases for refusal of transfer/ transmission of shares and debentures and reference to statutory and regulatory authorities. The scope and functions of the Investor Grievances and Share Transfer Committee are as per Clause 49 of the Listing Agreement.

Shareholding of the Directors

Our Articles do not require our Directors to hold any qualification shares in the Company. The list of Directors holding Equity Shares and the number of Equity Shares held by each of them as of November 3, 2005 is set forth below:

Sr. No.	Shareholders	No. of Equity Shares held
1.	Mr. Chander K. Baljee	13,181,706
2.	Mr. Sunil Sikka	7,000
3.	Mr. Naresh K. Malhotra	25,002
4.	Mr. Jaithirth Rao	25,000
5	Mr. R.V.S Rao	1,000

Interests of Directors

All Directors of the Company may be deemed to be interested to the extent of fees, if any, payable to them for attending meetings of the Board or a Committee thereof as well as to the extent of other remuneration, reimbursement of expenses payable to them under our Articles of Association. Our Directors will be interested to the extent of remuneration paid to them for services rendered by them as officers or employees of the Company.

All our Directors may also be deemed to be interested to the extent of Equity Shares, if any, already held by them as disclosed above or that may be subscribed by and allotted to them and to companies and firms in which they are interested as directors/members/partners.

All our Directors may be deemed to be interested in the contracts, agreements/arrangements entered into or to be entered into by us with any company in which they hold directorships or any partnership firm in which they are partners.

We have taken on lease Hotel Royal Orchid Harsha from the Promoter / Promoter Group Companies. For details of the leased property and the lease rental payable, refer to the section on "Our Business" appearing on page 48 of this Draft Red Herring Prospectus. Mr. Chander K. Baljee, our Chairman and Managing Director is a director and owns equity shares in these Promoter/ Promoter Group Companies and may be regarded to be interested to the extent of lease rents received by the Promoter / Promoter Group Companies.

We have not entered into any contracts in the last two years prior to the date of this Draft Red Herring Prospectus, in which our Directors are interested, directly or indirectly and no payments have been made to them in respect of such contracts other than as mentioned in “Financial Statements – Related Party Transactions” on page 84 of this Draft Red Herring Prospectus.

Borrowing Powers of the Board

The Articles of Association of the Company (Article 63) have empowered the Board of Directors of the Company, with the consent of the Company in General Meeting, to raise any money or any moneys or sums of money for the purpose of the Company provided that the moneys to be borrowed by the Company apart from temporary loans obtained from the Company's bankers in the ordinary course of business shall not without the sanction of the Company at a General Meeting exceed the aggregate of the paid up capital of the Company and its free reserves, that is to say reserves not set apart for any specific purpose, but subject to the provisions of Section 293 of the Act the Board may from time to time at their discretion raise or borrow or secure the payment of any such sum or sums of money for the purpose of the Company, by the issue of debentures, debentures convertible into shares of this or any other company or perpetual annuities and in security of any such money so borrowed, raised or received, mortgage, pledge or charge, the whole or any part of the property, assets or revenue of the Company present or future, including its uncalled capital by special assignment or otherwise or to transfer or convey the same absolutely or in trust and to give the lenders powers of sale and other powers as may be expedient and to purchase, redeem or payoff any such securities, provided that every resolution passed by the Company in General Meeting in relation to the exercise of the power to borrow as stated above shall specify the total amount upto which moneys may be borrowed by the Board of Directors. Further, the Directors of the Company may by a resolution at a meeting of the Board delegate the above power to borrow money otherwise than on debentures to a Committee of Directors or the Managing Director within the limits prescribed. Subject to the above, our Directors may, at their discretion borrow or secure the repayment of any sum of money for the purpose of the Company, at such time thinks fit, and in particular, by promissory notes or by opening current accounts, or by receiving deposits and advances with or without security, or by the issue of bonds perpetual or redeemable debentures or debenture stock of the Company (both present and future) including its uncalled capital for the time being, or by mortgaging or charging, or pledging any lands, buildings, goods or other property and securities of the Company, or by such other means as to them may seem expedient.

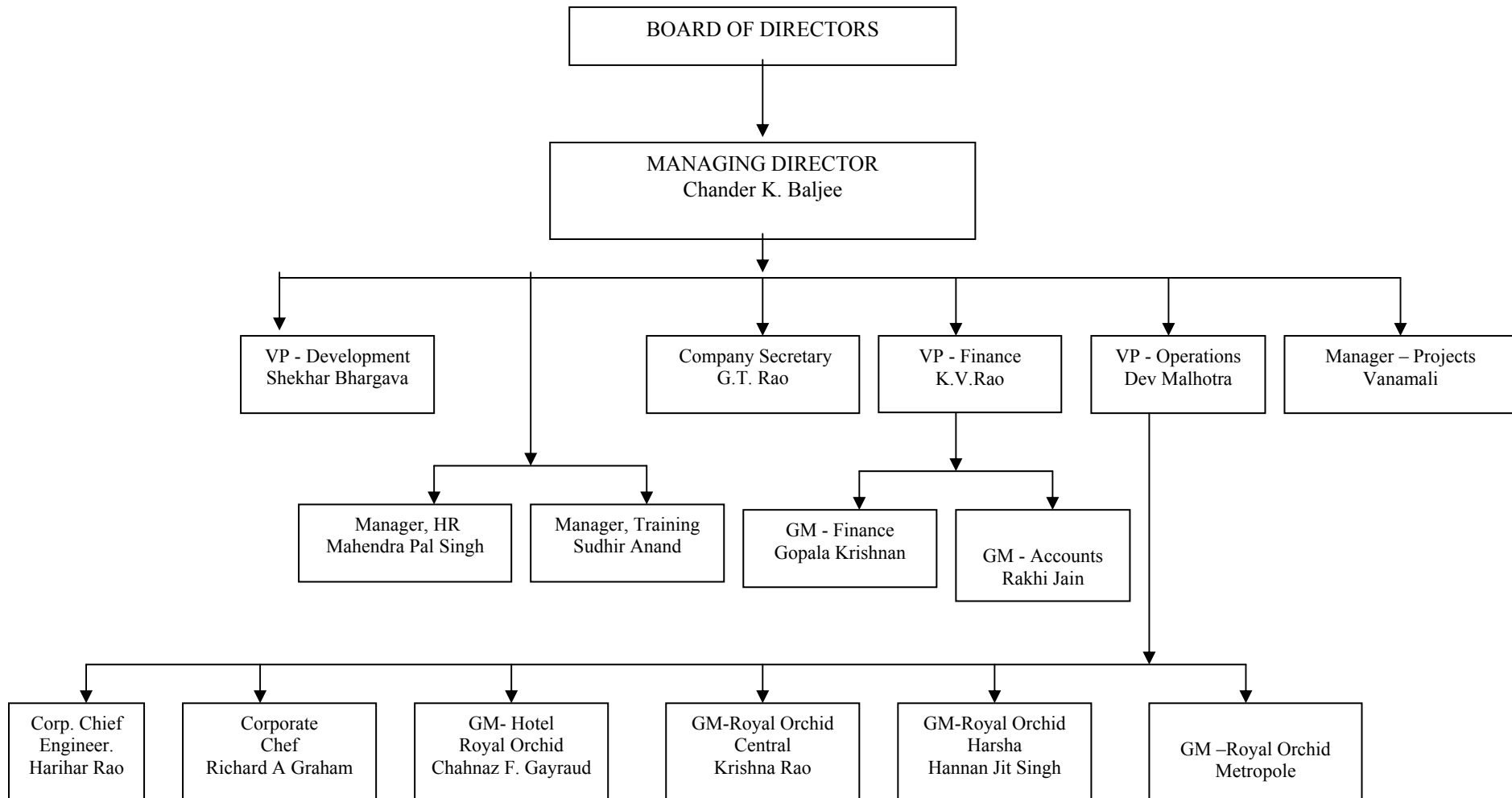
Vide resolution dated September 28, 2001 approved by our members at the Annual General Meeting, the Board of Directors is empowered to borrow upto Rs. 300 million exclusive of interest.

Changes in the Board of Directors in the last 3 years

The following are the changes to the Board of Directors in the last 3 years and no changes thereafter have taken place:

Name	Date of Appointment	Date of Cessation	Reason for Change
Mr. Dayanand Pai	08.02.2003	30.09.2003	Ceased to be a Director by virtue of Section 260 of The Companies Act, 1956.
Mr. Satish Pai	08.02.2003	30.09.2003	Ceased to be a Director by virtue of Section 260 of The Companies Act, 1956.
Mr. K.V.Rao	08.02.2003	30.09.2003	Ceased to be a Director by virtue of Section 260 of The Companies Act, 1956.
Mr. Naresh K Malhotra	18.06.2005		Appointed as Additional Director
Mr. Arjun Baljee Director (Projects)	18.06.2005	1.10.2005	Resignation
Mr. Chander K. Baljee Managing Director	22.06.2000	21.06.2005	Completion of term of appointment
Mr. Jaithirth Rao	18.07.2005		Appointed as Additional Director
Mr. C. Baljee	03.01.1986	18.07.2005	Resignation
Mrs. Sunita Baljee	03.09.1999	18.07.2005	Resignation
Mr. Chander K. Baljee Managing Director	22.08.2005		Re-appointed as Managing Director for 5 years with effect from 22.06.2005
Mr. R.V.S Rao	27.08.2005		Appointed as Additional Director

ROYAL ORCHID HOTELS LTD – ORGANISATION CHART



Key Managerial Personnel

The following key managerial personnel are permanent employees of the Company:

Sr. No.	Name	Designation	Qualification	Date of Joining	Experience (Yrs.)
1	Shekar Bhargava	VP ,Development	Graduate – Institute of Hotel Management, Mumbai	6/9/1999	26
2	K.V. Rao	VP, Finance	M.A in Economics	2/2/2003	25
3	Dev Malhotra	VP, Operations	Graduate in Hotel Management	6/10/2005	29
4	G. Tirupathi Rao	Company Secretary	FCS, LLM, MBA, M.Com	17/7/2005	15
5	Gopal Krishnan	GM, Finance	CA, MBA	1/3/2005	17
6	Rakhi Jain	GM, Accounts	CA, LLB, MBA (HR)	2/5/2005	9
7	B Harihar Rao	Corporate Chief Engineer	Electrical Engineer, Diploma in Aircraft Maintenance Engineering	23/7/2003	25
8	Richard A Graham	Corporate Chef	Graduate in Hotel Management	6/1/2005	30
9	Chahnaz F. Gayraud	GM – Hotel Royal Orchid	Graduate in Hotel Management	15/11/2004	24
10	Krishna Rao	GM – Royal Orchid Central	Graduate in Hotel Management	9/6/2005	30
11	Hannan Jit Singh	GM – Royal Orchid Harsha	MBA, Graduate in Hotel Management	10/11/2004	17
12	Devendra Awasthi	GM – Royal Orchid Metropole	Graduate in Hotel Management	25/8/2004	22
13	T.M.Vanamali	Project Manager	Diploma in Electrical Engineering, AMIE	27/7/2004	34
14	Mahender Pal Singh	Manager (HR)	B.Com,MBA (HR)	9/2/2004	7
15	Sudhir Anand	Manager (Training)	Graduate - IHM	15/7/2005	9

Dev Malhotra, 53 our Vice President – Operations is a Graduate in Arts from Delhi University and Graduate in Hotel Management. He has a vast experience of 29 years and has been associated with reputed hotels in India and abroad. He has worked as General Manager of Taj Pamodzi – Zambia, Taj Banjara, Pride Executive , Taj Gateway and Pinewood Ashok. His present remuneration is Rs. 1,500,000 per annum.

K.V. Rao, 53 our Vice President – Finance has an M.A in Economics from the Birla Institute of Technology and Science, Pilani and has 20 years experience in the field of banking with Syndicate Bank (including 5 years as Treasury Head) and 5 years with the Manipal Group as Resident Director. His present remuneration is Rs. 876,000 p.a.

Shekar Bhargava, 50 our Vice President for Development is a Graduate from Institute of Hotel Management, Mumbai. He has vast experience of 26 years at various levels and was associated with reputed hotel chains like Taj Group, Welcome Group, Holiday Inn, Choice Hotels, Wasan Hotels in India and Bulgaria and restaurants in the United States of America. His present remuneration is Rs. 757,032 p.a.

G. Tirupathi Rao, 43 the Company Secretary holds degrees in FCS, LLM, MBA(Finance) and M.Com has a work experience of over 15 years. He has experience in various fields like Secretarial, Legal, Administration and HR. He has earlier worked with Maha Cement, Surya Group and the GVK Group Limited. His present remuneration is Rs. 600,000 p.a.

Gopal Krishnan, 42 our General Manager – Finance is a Chartered Accountant & an MBA from Australia. He has a work experience of 17 years and has worked as Chartered Accountant with Reliance Infocomm Limited. & Job Street (I) Limited. His present remuneration is Rs. 720,000 p.a.

Rakhi Jain, 35 our General Manager – Accounts is a Chartered Accountant, holds a Degree in law and a MBA with specialization in the field of Human Resource having 9 years experience in the Hospitality Industry. She has earlier worked with ITC Welcomgroup. Her present remuneration is Rs. 720,000 p.a.

B Harihar Rao, 45 our Corporate Chief Engineer, holds a Degree in Electrical Engineering from Indian Air Force and a Diploma in Aircraft Maintenance Engineering. He has an experience of 25 years. He has worked with the Indian Air force for 20 years and is in the Hotel Industry for 5 years. His present remuneration is Rs. 396,000 p.a.

Richard A Graham, 62 our Corporate Chef with 30 years of experience with the Oberoi and ITC Welcomgroup. He has also worked in several hotels in Australia and Singapore. His present remuneration is Rs. 1,080,000 p.a

Chahnaz F. Gayraud, 44 General Manager – Hotel Royal Orchid is a Graduate in Hotel Management from Switzerland, with 24 years of experience in all areas of management with International Hotel Chains like Marriott, Relais Chateaux, Holiday Inn, Sofitel and Carnival Cruiselines. Her present remuneration is Rs. 1,035,000 p.a

Krishna Rao, 51 our General Manager – Royal Orchid Central is a Graduate in Hotel Management with an experience of 30 years. He has worked with RITZ, ITDC, Indian Hotels, Spencers and East India Hotels in Saudi Arabia. His present remuneration is Rs. 900,000 p.a

Hannan Jit Singh, 35 our General Manager – Royal Orchid Harsha is a Graduate in Hotel Management and an MBA (Marketing). He has an experience of 17 years and has been associated with reputed hotel chains in India and abroad like Park Sheraton, Windsor Sheraton, Jenney's Residency, Villivaur & Biyaboo Island Resorts in Maldives. His present remuneration is Rs. 420,000 p.a

Devendra Awasthi, 47 our General Manager – Royal Orchid Metropole is a Graduate in Hotel Management, with an experience of 22 yrs in India and abroad. He has worked with Park Plaza & Quality Inn Hotels. His present remuneration is Rs. 384,000 p.a

T M Vanamali, 47 our Project Manager holds a Diploma in Electrical Engineering and AMIF and has a work experience of 34 years. He has worked with Best & Crompton, ITC Welcomgroup of Hotels and Marriott Hotel. His present remuneration is Rs. 420,732 p.a

Mahender Pal Singh, 31 our Manager (H.R) holds an MBA in Human Resource. He has 7 years experience and has worked with Radisson Hotels and Country Inn Hospitality. His present remuneration is Rs. 264,000 p.a.

Sudhir Anand, 31 our Manager (Training) is a graduate from Institute of Hotel Management. He has 9 years experience in the fields of HR and Training. His present remuneration is Rs. 300,000 p.a

Shareholding of the Key Managerial Personnel

Save and except as stated below, none of our Key Managerial Employees hold Equity Shares in the Company.

Sr. No.	Shareholders	No. of Equity Shares held
1.	Mr. K.V. Rao	2

Changes in the Key Managerial Personnel since last three years :

Other than the following there has been no change in the key managerial personnel of the Company:

Name	Designation	Date of Joining	Date of Leaving	Reasons for Change
K.V. Rao	VP, Finance	2/2/2003	---	Appointment
G. Tirupathi Rao	Company Secretary	17/7/2005	---	Appointment
Dev Malhotra	VP, Operations	6/10/2005	---	Appointment
Gopal Krishnan	GM, Finance	1/3/2005	---	Appointment
Rakhi Jain	GM, Accounts	2/5/2005	---	Appointment
B Harihar Rao	Corporate Chief Engineer	23/7/2003	---	Appointment
Richard A Graham	Corporate Chef	6/1/2005	---	Appointment
Ms. Sara Haque	GM (Sales & Mktg)	2/2/2003	15/10/2005	Resignation
Chahnaz F. Gayraud	GM – Hotel Royal Orchid	15/11/2004	---	Appointment
Krishna Rao*	GM – Royal Orchid Central	9/6/2005	---	Appointment
Hannan Jit Singh	GM – Royal Orchid Harsha	10/11/2004	---	Appointment
Devendra Awasthi	GM – Royal Orchid Metropole	25/8/2004	---	Appointment
T.M.Vanamali	Manager	27/7/2004	---	Appointment
Ranjan Gupta	GM, Hotel Royal Orchid	---	31/8/2002	Resignation
Shashi K. Vagale	COO	---	20/9/2003	Cessation of Employment
Pradhan Ganapathy	GM, Hotel Royal Orchid	---	7/7/2003	Resignation
Arun Aggarwal	Consultant	---	15/2/2004	Resignation
Vinod Sharma*	GM, Royal Orchid Central	---	22/5/2004	Resignation
N V Ganesh*	GM, Royal Orchid Central	---	1/5/2005	Resignation
Tapan Chatterjee	GM, Royal Orchid Harsha	---	8/3/2004	Resignation
Suman Talwar	GM, Royal Orchid Harsha	---	15/11/2004	Resignation

* Employees of Icon Hospitality Private Limited, Subsidiary of Royal Orchid Hotels Limited.

Human Resources

The Company currently employs 481 employees. The following table illustrates the educational qualifications of our employees at our properties and the department wise break up of our employees

Qualification	No.of Employees
Post Graduation	12
Graduation	63
Hotel Management	89
Others	317
Total	481

Department	No.of Employees
Sales & Marketing	6
Front Office	53
Food & Beverage	260
House Keeping	64
Engineering	30
Administration	67
Projects	1
Total	481

In addition to these employees our subsidiary Icon Hospitality Private Limited employs 228 employees at Royal Orchid Central. The following table illustrates the educational qualifications and department wise break up of employees of Royal Orchid Central.

Qualification	No.of Employees
Post Graduation	10
Graduation	29
Hotel Management	33
Others	156
Total	228

Department	No.of Employees
Sales & Marketing	5
Front Office	20
Food & Beverage	105
House Keeping	40
Engineering	19
Administration	37
Projects	2
Total	228

Training and Development

We place a lot of emphasis on training and development of our employees. Employees in all the departments undergo regular training programs to upgrade their skills to the changing requirements of the hotel industry. Our association with Presidency Institute of Hotel Management, a promoter group institute provides us with access to training facilities and modules and gives access to trained pool of hotel management graduates.

Employee Relations

Pursuant to commencement of operations of the Hotel Royal Orchid, we entered into a Memorandum of Settlement dated July 4, 2002 with employees of the hotel. The said Memorandum of Settlement was arrived at before the Deputy Labour Commissioner and conciliation officer, Bangalore. The terms of the settlement will be in force from June 1, 2002 and shall continue to be in force till validly terminated as per the provisions of the Industrial Disputes Act, 1947. The Memorandum provides for the terms and conditions of employment including wages, annual increments, increase in salary/ wages, leave, bonus, retirement, etc. The parties have agreed the employees will not, during the continuance of this settlement, raise any demand, or pursue or agitate for any other demand at any time involving any financial burden on the Company.

Pursuant to taking over management of Royal Orchid Central, Icon Hospitality Private Limited entered into a Memorandum of Settlement dated April 21, 2003 with the employees of the said hotel. The said Memorandum of Settlement was arrived at before the Deputy Labour Commissioner and conciliation officer, Bangalore. The Memorandum of Settlement is valid from April 1, 2003 to March 31, 2007. It is further agreed that the terms of the settlement shall be applicable even after March 31, 2007 until replaced by another settlement. The parties have agreed the employees will not, during the continuance of this settlement, raise any demand, or pursue or agitate for any other demand at any time involving any financial burden on Icon Hospitality.

OUR PROMOTERS

The Company has both individual and corporate promoters. The individual promoters are Chander K. Baljee, Sunita Baljee, Arjun Baljee and Keshav Baljee and the corporate promoter is Baljees Hotels and Real Estates Private Limited (together the “Promoters”). Chander K. Baljee is the Chairman and Managing Director of the Company.

INDIVIDUAL PROMOTERS



Chander K. Baljee, 54, Managing Director, is the main promoter of the Company. He is responsible for the incorporation of the Company. A graduate of the prestigious Indian Institute of Management, Ahmedabad, Mr. Chander K. Baljee incorporated the Company under the name and style of Universal Resorts Limited in 1986. Mr. Baljee also holds directorships in other companies. Mr. Baljee was the Chairman of the Confederation of Indian Industry (CII) Tourism sub-committee. Mr. Baljee was also the Chairman of the Sub-Committee of Tourism, Greater Mysore Chamber of Commerce and Industry.

Permanent Account Number	ACTPB3357L
Voter ID Number	N.A.
Passport Number	A6256565
Driving License Number	41 / 84 – 85



Sunita Baljee, 51, is the co-promoter of Royal Orchid Hotels Limited. She was a Director of the Company for six years from September 1999 till July 2005. Mrs. Baljee has a MBA degree from the University of Raipur. She is also on the Board of Directors of Baljees Hotels and Real Estates Private Limited and Harsha Farms Private Limited. She is also the proprietor of Presidency Caterers.

Permanent Account Number	ABSPB5553C
Voter ID Number	N.A.
Passport Number	A6256566
Driving License Number	N.A.



Arjun Baljee, 25 is the co-promoter of Royal Orchid Hotels Limited. He has a bachelor degree in hotel management from Cornell University and is a management graduate from Brisbane Graduate School of Business, Australia. He is also on the Board of Directors of Royal Orchid Banjara Private Limited, Icon Hospitality Private Limited and Cuisine Artists Private Limited.

Permanent Account Number	AITPB9749E
Voter ID Number	N.A.
Passport Number	A2374981
Driving License Number	3763/98A94V187



Keshav Baljee, 22 is the co-promoter of Royal Orchid Hotels Limited. He has a bachelors degree in management and technology from the Wharton School, University of Pennsylvania, USA. He is currently working at Lehman Brothers, New York.

Permanent Account Number	N.A.
Voter ID Number	N.A.
Passport Number	E2373815
Driving License Number	262516815

Declaration

It is confirmed that the PAN, bank account number and passport number of each of the Promoters are being submitted to NSE and BSE at the time of filing of Draft Red Herring Prospectus with them.

CORPORATE PROMOTER

Baljees Hotels and Real Estates Private Limited

Baljees Hotels and Real Estates Private Limited was incorporated as a private limited company on May 4, 1984 with company registration number 08-6061. The registered office is located at No.11 Park Road, Bangalore- 560051. The main object of Baljees Hotels and Real Estates is to promote, set up operate and manage hotels.

Baljees Hotels and Real Estates has an authorized share capital of Rs. 35,00,000/- and a paid up capital of Rs. 3400200/- divided into 34002 equity shares of Rs. 100/- each. This company is an unlisted company and it has not made any public or rights issue in the preceding three years. It has not become a sick company under the meaning of SICA and it is not under winding up.

Shareholding Pattern

The shareholders and their percentage shareholding in Baljees Hotels and Real Estates Private Limited is as follows:

S. No	Shareholder	No. of Shares	Percentage
1.	Chander K. Baljee	19,920	58.58%
2.	Sunita Baljee	6,804	20.01%
3.	Arjun Baljee	3,639	10.70%
4.	Keshav Baljee	3,639	10.70%
	TOTAL	34,002	100%

Constitution of Board

The Board of Directors of Baljees Hotels and Real Estates comprise of :

1. Chander K. Baljee,
2. Sunita Baljee.

The financial highlights of Baljees Hotels and Real Estates Private Limited as per the latest available audited financial statements for the last three financial years are as under:

Particulars (Rs)	2004-05	2003-04	2002-03
Sales	5,766,974	4,621,913	13,572,543
Other Income	2,052,986	890,526	2,696,812
Profit after Tax	687,750	(799,347)	1,099,642
Equity Capital	3,400,200	3,400,200	3,400,200
Reserves & Surplus (excluding revaluation reserve)	12,606,963	11,919,213	12,718,560
EPS (Rs.)	20.23	(23.51)	32.34
Net Asset Value Per Share (Rs.)	470.77	450.54	474.05

Declaration

It is confirmed that the PAN, bank account number, company registration number of Baljees Hotels and Real Estates Private Limited and the address of the Registrar of Companies where the company is

registered are being submitted to NSE and BSE at the time of filing of Draft Red Herring Prospectus with them.

Common Pursuits

Our Promoter company i.e. Baljees Hotels and Real Estates Private Limited as well as certain other companies forming part of the Promoter Group namely Hotel Stay Longer Private Limited, Presidency Caterers, Cuisine Artists Private Limited and Royal Orchid Banjara Private Limited are in the business operating hotels and restaurants. Hence to this extent there exists a potential conflict of interest between us and these entities.

Interest of Promoters

The Company has taken on lease Hotel Royal Orchid Harsha from the Promoter / Promoter Group Companies. For details of the leased property and the lease rental payable, refer to the section on “Our Business” appearing on page 48 of this Draft Red Herring Prospectus. Our Promoters may be regarded to be interested to the extent of lease rents received by the Promoter / Promoter Group Companies.

Payment or benefit to Promoters

The Promoters are interested in the Company to the extent of their shareholding, for which they are entitled to receive the dividend declared, if any, by the Company.

Since Chander K. Baljee is also the Chairman and Managing Director of the Company, he is interested to the extent of his remuneration from the Company, as disclosed under the section “Our Management” appearing on page 71 of this Draft Red Herring Prospectus.

For details of transactions with Promoter Group companies, refer to the section on “Related Party Transactions” appearing on page 84 of this Draft Red Herring Prospectus.

There are no interests of Promoters or payment or benefit to promoters except as mentioned elsewhere in this Draft Red Herring Prospectus.

RELATED PARTY TRANSACTIONS

For related party transactions, see the paragraph 9 of Annexure 4 of the Consolidated Restated Financial Statements at page 111 of this Draft Red Herring Prospectus.

GROUP / RELATED COMPANIES / ENTITIES

The companies / entities indicated below form part of the Promoter Group:

1. Hotel Stay Longer Private Limited
2. Harsha Farms Private Limited
3. Cuisine Artists Private Limited
4. Presidency Educational Trust
5. Presidency Caterers
6. Royal Orchid Banjara Private Limited
7. Sikka Exports

The relevant details of the above named companies/entities are provided below:

1. Hotel Stay Longer Private Limited

Hotel Stay Longer Private Limited was incorporated as a private limited company in Bangalore on April 16, 1970 with company registration no. 08 – 1884. The registered office of the company is situated at No.11, Park Road, Bangalore 560 051. The main object of Hotel Stay Longer is to carry on the business of hotel, boarding, lodging, restaurant, bar, café, canteen, motel etc.

Hotel Stay Longer Private Limited. has an authorized share capital of Rs. 83 million and a paid up capital of Rs. 8,12,00,000/- divided into 81,20,000 equity shares of Rs. 10/- each. This company is an unlisted company and it has not made any public or rights issue in the preceding three years. It has not become a sick company under the meaning of SICA and it is not under winding up.

Hotel Stay Longer Private Limited is the absolute owner of Royal Orchid Harsha and the property on which it is situated. The Company has taken on lease the said premises and also the operational and management rights of Royal Orchid Harsha.

Shareholding Pattern

The shareholding pattern of Hotel Stay Longer Private Limited is as under:

S. No	Shareholder	No. of Shares	Percentage
1	Baljees Hotels and Real Estates Private Limited	8113233	99.92
2	Sunita Baljee	6767	0.08
	TOTAL	8120000	100

Constitution of Board

The Board of Directors of Hotel Stay Longer Private Limited are listed below:

1. Chander K. Baljee
2. Sunita Baljee

The financial highlights of Hotel Stay Longer Private Limited as per the latest available audited financial statements for the last three financial years are as under:

Particulars (Rs)	2004-05	2003-04	2002-03
Sales	434,500	330,000	330,000
Other Income	NA	NA	NA
Profit after Tax	168,356	99,071	75,111
Equity Capital	81,200,000	81,200,000	81,200,000
Reserves & Surplus (excluding revaluation reserve)	(809,382)	(977,738)	(1,076,809)

EPS (Rs.)	0.02	0.01	0.01
Net Asset Value Per Share (Rs.)	9.90	9.88	9.87

2. Harsha Farms Private Limited

Harsha Farms Private Limited was incorporated as private limited company incorporated on May 6, 1983 under the provisions of the Companies Act, 1956 having registration number 08 - 5296. The registered office is located at No. 11, Park Road, Bangalore – 560051. The main object of Harsha Farms Private Limited is to acquire land for the purposes of the business of agriculture, horticulture or sericulture, etc.

Harsha Farms Private Limited has an authorized share capital of Rs. 0.1 million and a paid up share capital of Rs. 0.1 million divided into 1000 equity shares of Rs. 100/- each. This company is an unlisted company and it has not made any public or rights issue in the preceding three years. It has not become a sick company under the meaning of SICA and it is not under winding up.

Shareholding Pattern

The shareholders and their percentage shareholding in Harsha Farms Private Limited is as provided below:

S. No	Shareholder	No. of Shares	Percentage
1.	Chander K. Baljee	500	50%
2.	Sunita Baljee	500	50%
	TOTAL	1000	100%

Constitution of Board

The Board of Directors of Harsha Farms Private Limited is constituted as below:

1. Chander K. Baljee,
2. Sunita Baljee.

The financial highlights of Harsha Farms Private Limited as per the latest available audited financial statements for the last three financial years are as under:

Particulars (Rs)	2004-05	2003-04	2002-03
Sales	131,204	429,500	383,550
Other Income	NA	NA	NA
Profit after Tax	7,030	125,525	158,904
Equity Capital	100,000	100,000	100,000
Reserves & Surplus (excluding revaluation reserve)	1,906,118	1,899,088	1,773,764
EPS	7.03	125.52	158.90
Net Asset Value Per Share	1906.12	1899.09	1773.76

3. Cuisine Artists Private Limited

Cuisine Artists Private Limited was incorporated as a private limited company in Bangalore on May 16, 2005 with company registration no. 08 – 51969. The registered office of the company is situated at Royal Orchid Harsha, No.11, Park Road, Bangalore 560 051. Cuisine Artists Private Limited is engaged in the business of food processing, catering and food retailing. This company is an unlisted company and it has not made any public or rights issue in the preceding three years. It has not become a sick company under the meaning of SICA and it is not under winding up.

Constitution of Board

The Board of Directors of Cuisine Artists Private Limited is constituted as below:

1. Arjun Baljee
2. Siddharth Sheth

The company is yet to commence its operation.

4. Presidency Educational Trust

The Presidency Educational Trust was constituted on February 4, 1994 by Mr. Chander K. Baljee by a registered Trust Deed as a public trust under the Indian Trust Act of 1882. The primary object of the Trust is to run educational institutions. The principal office of the Trust is situated at No. 11, Park Road, Bangalore – 560 051. The Trust is managed by 5 trustees including 3 hereditary trustees being Mr. C. Baljee, Mr. Dinesh Nasa and Mr. Chander K. Baljee and 2 ordinary trustees appointed by the hereditary trustees. The present trustees include Chander K. Baljee and Sunita Baljee.

The financial highlights of Presidency Educational Trust as per the latest available audited financial statements for the last three financial years are as under:

Particulars (Rs)	2004-05	2003-04	2002-03
Income	4,889,848	4,834,830	4,473,240
Other Income	7,928	1,490	----
Excess of Income over expenditure	98,616	1,014,647	443,944
Capital Fund	10,000	10,000	10,000
Reserves & Surplus (excluding revaluation reserve)	9,830,999	9,807,606	8,802,960
EPS	NA	NA	NA
Net Asset Value Per Share	NA	NA	NA

5. Presidency Caterers

Presidency Caterers is a proprietary concern and owned is by Mrs. Sunita Baljee. The concern was started in the FY 2002 and currently has a turnover of over Rs. 10 million. The concern is in the business of catering for corporates and also operates fast food outlets in Bangalore.

The financial highlights of Presidency Caterers as per the latest available audited/provisional financial statements for the last three financial years are as under:

Particulars (Rs)	2004-05 (Provisional)	2003-04	2002-03
Sales	15,046,846	9,770,600	8,339,962
Other Income	----	---	---
Profit after Tax	(1,784,160)	204,918	65,590
Capital Account	63,323	63,323	1,125,496
Reserves & Surplus (excluding revaluation reserve)	NA	NA	NA
EPS (Rs.)	NA	NA	NA
Net Asset Value Per Share (Rs.)	NA	NA	NA

6. Royal Orchid Banjara Private Limited

Royal Orchid Banjara Private Limited was incorporated as a private limited company in Bangalore on July 21, 2005 with company registration no. 08– 53259. The registered office of the company is situated No.1, Golf Avenue, Adjoining KGA Golf Course, Airport Road, Bangalore 560 008. The main object of Royal Orchid Banjara Private Limited is to carry on the business of hotel, boarding, lodging, restaurant, bar, café, canteen, motel etc.

This company is an unlisted company and it has not made any public or rights issue in the preceding three years. It has not become a sick company under the meaning of SICA and it is not under winding up.

Shareholding Pattern

The shareholders and their percentage shareholding in Royal Orchid Banjara Private Limited is provided below:

S. No	Shareholder	No. of Shares	Percentage
1.	Chander K. Baljee	5000	50%
2.	Arjun Baljee	5000	50%
	TOTAL	10000	100%

Constitution of Board

The Board of Directors of Royal Orchid Banjara Private Limited is constituted as below:

1. Chander K. Baljee
2. Arjun Baljee

Since Royal Orchid Banjara Private Limited has been incorporated on July 21, 2005 there are no audited financial statements for the company.

7. Sikka Exports

Sikka Exports is a proprietary concern and is owned by Mr. Sunil Sikka. Sikka Exports has its office at 19-B, Block N, Saket, New Delhi 110 017. The concern is in the business of acting as representative for foreign buyers of carpets.

The financial highlights of Sikka Exports as per the latest available financial statements for the last three financial years are as under:

Particulars (Rs)	2004-05	2003-04	2002-03
Commission income	4,568,937	3,950,935	3,927,804
Other Income	----	----	----
Profit after Tax	539,886	764,234	541,578
Proprietor's Capital Account	1,535,281	1,526,832	998,459
Reserves & Surplus (excluding revaluation reserve)	N.A.	N.A.	N.A.
EPS (Rs.)	N.A.	N.A.	N.A.
Net Asset Value Per Share (Rs.)	N.A.	N.A.	N.A.

Source: Audited statements for FY2004-05, unaudited statements for FY2003-04, FY2002-03

CURRENCY OF PRESENTATION

In this Draft Red Herring Prospectus, all references to “Rupees” “Rs.” are to the legal currency of India, all references to “U.S. Dollars”, and “US\$” are to the legal currency of the United States.

Any percentage amounts, as set forth in “Risk Factors”, “Business”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Draft Red Herring Prospectus, unless otherwise indicated, have been calculated on the basis of our consolidated financial statements prepared in accordance with Indian GAAP.

DIVIDEND POLICY

The declaration and payment of dividends will be recommended by the Board of Directors and approved by our shareholders, at their discretion, and will depend on a number of factors, including but not limited to our profits, capital requirements and overall financial condition. The Board may also from time to time pay interim dividend.

The Company has not made any payment of dividend in the past five years. The amounts paid as dividends in the past are not necessarily indicative of our dividend policy or dividend amounts, if any, in the future.

FINANCIAL INFORMATION

ROYAL ORCHID HOTELS LIMITED – CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES AND PROFITS AND LOSSES, AS RESTATED, FOR THE QUARTER ENDED 30 JUNE, 2005 AND YEARS ENDED 31 MARCH, 2001, 2002, 2003, 2004 AND 2005

Auditors' report as required by Part II of Schedule II of the Companies Act, 1956

The Board of Directors,
Royal Orchid Hotels Limited
Hotel Harsha
No. 11, Park Road
Bangalore – 560 001
India

At your request, we have examined the annexed consolidated financial information of Royal Orchid Hotels Limited ('the Company') and its subsidiary Icon Hospitality Private Limited ('the subsidiary' or 'Icon') (collectively referred to as 'the Group') for the five financial years ended March 31, 2005, 2004, 2003, 2002 and 2001 and the quarter ended June 30, 2005, including the notes thereon being the last date to which the accounts of the Company have been made up. This consolidated financial information has been prepared by the management and is approved by the Board of Directors of the Company for the purpose of disclosure in the Offer Document being issued by the Company in connection with the Initial Public Offering ('IPO') for the issue of 6,820,000 of its equity shares having a face value of Rs.10 each at an issue price to be arrived at by a book building process (referred to as 'the Issue').

This consolidated financial information has been prepared in accordance with the requirements of:

- i. Paragraph B (1) of Part II of Schedule II to the Companies Act, 1956 ('the Act');
- ii. The Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 ('the SEBI Guidelines') issued by the Securities and Exchange Board of India ('SEBI') on January 19, 2000 in pursuance to Section 11 of the Securities and Exchange Board of India Act, 1992 and related amendments;
- iii. The Guidance Note on the Reports in Company Prospectuses and the Guidance Note on Audit Reports/Certificates on Financial Information in Offer document issued by the Institute of Chartered Accountants of India ('ICAI'); and
- iv. Our terms of reference with the Company dated April 18, 2005, requesting us to carry out work, proposed to be included in the Offer document of the Company as aforesaid.

A) Consolidated Financial information as per the audited financial statements

1. We have examined the Consolidated Statements of Assets and Liabilities and Profits and Losses, as restated of the group as at and for the period/year ended 30 June, 2005, 31 March, 2005, 2004, 2003, 2002 and 2001 as prepared by the Company and approved by the Board of Directors. These Consolidated Statements of Assets and Liabilities and Profits and Losses, as restated have been arrived at after making such adjustments and regroupings to the individual financial statements of the Company and its subsidiary which are appropriate and are more fully described in the Significant Accounting Policies appearing in Annexure 3 to this report.
2. The Consolidated Statements of Assets and Liabilities and Profits and Losses, as restated for the years ended 31 March, 2004, 2003, 2002 and 2001, including the adjustments and regroupings discussed above have been extracted from the audited, unconsolidated financial statements of Royal Orchid Hotels Limited and Icon Hospitality Private Limited respectively all of which have been audited by M/s R Subramanian and Co ('the previous auditor'). We have verified the impact of inter-company eliminations, retrospective adjustments on account of changes in accounting policies and estimates, prior period items and regroupings for the years ended 31 March, 2004, 2003, 2002 and 2001. We have not carried out any audit tests or review procedures on the financial statements of Royal Orchid Hotels Limited and Icon Hospitality Private Limited since we did not perform the audit for the years ended 31 March, 2004, 2003, 2002 and 2001. The Consolidated Statements of Assets and Liabilities and Profits and Losses, as restated as at and for the year ended 31 March, 2005 and the quarter ended 30 June, 2005, are based on the consolidated financial statements of the Group as at and for the year ended March 31, 2005 and the quarter ended June 30, 2005, which have been audited by us.
3. The Consolidated Statements of Assets and Liabilities and Profits and Losses as at and for the years ended March 31, 2003, 2002 and 2001 represent the restated assets and liabilities and the restated profits and losses of the Company on a stand alone basis and do not include the assets and liabilities or profits and losses of the subsidiary as the Company acquired control of the subsidiary only effective 4 April, 2003. The financial statements of the subsidiary have been included with effect from 4 April, 2003. Therefore the restated summary of assets and liabilities as at 31 March, 2005 and 2004 and the restated summary of profits and losses for the years there ended are not directly comparable with those as at and for the years ended 31 March, 2003, 2002 and 2001.
4. We report that the Consolidated Statement of Assets and Liabilities, as restated of the Group as at 30 June, 2005, 31 March, 2005, 2004, 2003, 2002 and 2001 are as set out in Annexure 1 to this report after making such adjustments/restatements and regrouping as in our opinion are appropriate and are to be read in accordance with the Significant Accounting Policies as appearing in Annexure 3 and Notes to the Consolidated Statements appearing in Annexure 4 to this report.
5. We report that the Consolidated Statement of Profits and Losses, as restated of the Group for the quarter ended 30 June, 2005 and the financial years ended 31 March, 2005, 2004, 2003, 2002 and 2001 are as set out in Annexure 2 to this report. These profits and losses have been arrived at after charging all expenses including depreciation and after making such adjustments/restatements and regrouping as in our opinion are appropriate and are to be read in accordance with the Significant Accounting Policies as appearing in Annexure 3 and Notes to the Statements appearing in Annexure 4 to this report.
6. Based on our examination of these Consolidated Statements of Assets and Liabilities and Profits and Losses, as restated, we confirm that:
 - The Consolidated Statements of Assets and Liabilities and Profits and Losses, as restated of the Group have been restated with retrospective effect to reflect the significant accounting policies as adopted by the Group;
 - The prior period items which need to be adjusted in the Consolidated Statements of Assets and Liabilities and Profits and Losses, as restated have been adjusted in the period to which they relate;

- *The Auditors in their report on the unconsolidated financial statements of the Company for the years ended 31 March , 2003, 2002 and 2001 and the consolidated financial statements of the Group for the quarter ended 30, June 2005 and the year ended March 31, 2005 had included certain qualifications (reproduced in Note 1 of the Annexure 4), for which, in the absence of any quantification, no adjustments have been made in the Consolidated Statements of Assets and Liabilities and Profits and Losses, as restated; and*
- There are no extra-ordinary items which need to be disclosed separately in the Consolidated Statements of Assets and Liabilities and Profits and Losses, as restated.
- Accounting Standard disclosures pertaining to Leases and Related Party Transactions have been provided from the year ended March 31, 2002 onwards.

B) Consolidated Other Financial Information

7. At your request, we have examined the following consolidated financial information relating to the Group proposed to be included in the Offer Document, as approved by you and annexed to this report:
 - i) Consolidated Statement of Cash Flows, as restated, appearing in Annexure 5 to this report. The Consolidated Statement of Cash Flows, as restated is based on the consolidated financial information for the respective years as described in paragraphs 1, 2 and 3 above. We have not carried out any audit tests or review procedures on the financial statements of Royal Orchid Hotels Limited or Icon Hospitality Limited since we did not perform the audit for the year ended March 31, 2004, 2003, 2002 and 2001. The Consolidated Statement of Cash Flows, as restated for the quarter ended June 30, 2005 and the year ended March 31, 2005 is based on the consolidated financial statements for the quarter ended June 30, 2005 and the year ended March 31, 2005 respectively, which have been audited by us.
 - ii) Consolidated Accounting Ratios, as restated based on the Consolidated Statements of Assets and Liabilities and Profits and Losses, as resated appearing in Annexure 6 to this Report;
 - iii) Consolidated Statement of Tax Shelters, as restated appearing in Annexure 7 to this Report; and
 - iv) Consolidated Capitalization Statement, as restated as at March 31, 2005 appearing in Annexure 8 to this Report

The Company did not declare any dividend on equity shares for the quarter ended June 30, 2005 and the years ended March 31, 2005, 2004, 2003, 2002 and 2001.

8. In respect of the 'Consolidated Financial Information as per the audited financial statements' and 'Consolidated Other Financial Information' contained in this report, we have relied upon the audited financial statements for the years ended March 31, 2004, 2003, 2002 and 2001 which were audited by another firm of Chartered Accountants, as referred to in paragraph 1, 2 and 3 above.
9. We report that the Consolidated Statements of Assets and Liabilities and Profits and Losses, as resated have been prepared by the Group's management in accordance with the requirements of the Accounting Standard 21 – 'Consolidated Financial Statements' issued by the ICAI.
10. *Subject to our comments above*, in our opinion the 'Consolidated Financial Information as per the audited financial statements' and 'Consolidated Other Financial Information' have been prepared in accordance with Part II of Schedule II of the Act and the SEBI Guidelines.

11. The sufficiency of the procedures, as set forth in the above paragraphs, is the sole responsibility of the Company. We make no representation regarding the sufficiency of the procedures described above either for the purposes for which this report has been requested or for any other purpose.
12. This report should not be in any way construed as a re-issuance or re-dating of any of the previous audit reports issued by us or by any other firm of Chartered Accountants nor should it be construed as a new opinion on any of the financial statements referred to therein.
13. This report is intended solely for your information and for inclusion in the Offer Document in connection with the specific Public Offer of the Company and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For Walker, Chandiok & Co
Chartered Accountants

Vinod Chandiok
Partner
Membership No. 10093

New Delhi
October 22, 2005

ANNEXURE 1 –CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES, AS RESTATED.

(Amounts in Rs millions)

	<i>June 30,</i>	<i>March 31,</i>				
	2005	2005	2004	2003	2002	2001
Fixed Assets						
Gross block	323.70	320.47	218.40	207.44	204.02	151.90
Less: Accumulated Depreciation	57.10	52.85	31.63	20.48	11.07	1.47
Net Block	266.60	267.62	186.77	186.96	192.95	150.43
Capital Work in Progress	135.47	101.75	48.32	16.32	-	-
Net Block after adjustment for Revaluation Reserve	402.07	369.37	235.09	203.28	192.95	150.43
Investments	0.03	0.03	0.12	0.12	0.12	0.09
Current Assets, Loans and Advances						
Inventories	7.20	5.42	3.91	3.07	4.23	0.02
Sundry Debtors	37.90	28.12	22.13	12.89	5.96	0.18
Cash and Bank Balances	78.96	68.81	74.66	8.68	2.92	39.27
Unbilled revenue	5.50	3.55	4.41	0.63	0.21	-
Loans and Advances	112.06	120.84	99.78	80.21	64.23	64.19
Deferred tax asset, net	0	-	-	12.14	14.06	2.80
	241.62	226.74	204.89	117.62	91.61	106.46
Liabilities and Provisions						
Secured Loans	201.78	203.79	215.21	193.56	182.85	150.00
Unsecured Loans	1.28	1.28	7.00	7.54	7.04	8.12
Current Liabilities and Provisions	84.85	82.58	77.32	42.64	19.90	5.31
Deferred Tax Liability, net	25.69	26.50	8.60	-	-	-
	313.60	314.15	308.13	243.74	209.79	163.43
Net Worth	330.12	281.99	131.97	77.28	74.89	93.55
Represented by:						
Share Capital	96.95	96.95	91.23	91.23	91.23	91.23
Reserves/(Accumulated Losses)	204.08	160.2	30.34	(13.85)	(16.23)	2.44
Minority interest	29.09	24.84	10.50	-	-	-
	330.12	281.99	132.07	77.38	75.00	93.67
Misc. Expenditure to the extent not written off or adjusted	-	-	0.10	0.10	0.11	0.12
Net Worth (F-G)	330.12	281.99	131.97	77.28	74.89	93.55

To be read together with the notes forming part of the consolidated statements, as restated attached.

ANNEXURE 2 - CONSOLIDATED STATEMENT OF PROFIT AND LOSS ACCOUNT, AS RESTATED

(Amounts in Rs millions)

Particulars	Quarter ended June 30,	Year Ended March 31				
	2005	2005	2004	2003	2002	2001
Income						
Sales:						
Room revenues	122.95	435.84	230.90	71.24	26.90	0.01
Food and beverages	36.46	117.52	102.75	61.63	25.60	0.16
Other service charges	4.05	16.56	16.45	12.33	3.43	0.00
Other income	2.39	11.90	9.10	5.87	0.55	0.02
Total income	165.85	581.82	359.20	151.07	56.48	0.19
Expenditure						
Food and beverages consumed	11.00	37.22	36.32	18.28	9.57	0.10
Employee costs	16.03	49.29	35.07	18.29	8.85	0.06
Other operating expenses	37.69	138.86	104.72	35.34	12.96	0.00
General and administrative expenses	27.62	94.96	56.45	26.07	14.36	0.07
Preliminary expenses written off	0	0.10	0.10	0.01	0.01	0.00
Total expenditure	92.34	320.43	232.66	98.00	45.75	0.23
Profit/(loss) Before Depreciation, Interest and Tax	73.51	261.39	126.54	53.07	10.73	(0.04)
Depreciation	4.24	22.30	19.29	9.43	6.59	0.16
Interest & Finance Charges	3.89	24.80	29.61	36.31	27.74	0.01
Profit /(loss)before tax, change in accounting policy and prior period items	65.38	214.29	77.64	7.33	(23.60)	(0.21)
Change in accounting policy	-	29.50	(25.60)	-	-	-
Prior period Expenses	-	(9.00)	-	-	-	-
Profit /(loss)before tax and minority interest	65.38	234.79	52.04	7.33	(23.60)	(0.21)
Current tax	(16.37)	(53.50)	(11.50)	(0.20)	-	-
Deferred tax	0.79	(20.00)	(6.50)	-	-	-
Provision for income tax written back		0.80	-	-	-	-
Net profit /(loss) before minority interest	49.80	162.09	34.04	7.13	(23.60)	(0.21)
Minority interest	(4.11)	(14.40)	(7.30)	-	-	-
Net Profit/(loss) before adjustments	45.69	147.69	26.74	7.13	(23.60)	(0.21)
Adjustments						
Increase/(decrease) in net profits						
<u>Impact of change in accounting policies</u>						
Depreciation	-	(29.50)	33.70	(0.02)	(3.01)	(1.30)
(refer Note 2(a) in Annexure 4)						
Deferred taxes	-	2.10	(14.20)	(1.92)	11.25	2.35
(refer Note 2(b) in Annexure 4)						
<u>Impact of items of prior years</u>						
Prior period items	-	7.88	(4.44)	(1.02)	(1.11)	(1.31)
(refer Note 3(a) in Annexure 4)						
Provision for Gratuity	-	1.12	0.70	(0.27)	(0.68)	(0.78)
(refer Note 3(b) in Annexure 4)						
Excess provisions written back	-	(4.69)	0.80	-	-	0.50
(refer Note 3(c) in Annexure 4)						
Excess tax provision written back	-	(0.80)	0.80	-	-	-
(refer Note 3(c) in Annexure 4)						
<u>Other adjustments</u>						
Accrual for property taxes	(1.79)	4.27	(0.62)	(0.62)	(0.62)	(0.62)
(refer Note 4(a) in Annexure 4)						
Accrual for Employee State Insurance dues	-	1.80	-	(0.90)	(0.90)	-

<i>(refer Note 4(b) in Annexure 4)</i>						
Total Difference due to adjustments	(1.79)	(17.82)	16.74	(4.75)	4.93	(1.16)
Net Profits as restated	43.90	129.87	43.48	2.38	(18.67)	(1.37)

To be read with the notes forming part of the Consolidated statements, as restated, attached.

ANNEXURE 3 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

5. *Background and group structure*

Royal Orchid Hotels Limited ('the Company') was incorporated on 3 January 1986 as Universal Resorts Limited to carry on the business and management of hotels/ holiday resorts and related services. The name of the Company was changed to Royal Orchid Hotel Limited on 10 April 1997. The Company currently operates three hotel properties- Hotel Royal Orchid, Bangalore, Royal Orchid Harsha, Bangalore and Royal Orchid Metropole, a heritage property in Mysore. Additionally the Company has also entered into a hotel operation agreement for Royal Orchid Central, with its subsidiary, Icon Hospitality Private Limited

The Company acquired the business of Royal Orchid Harsha effective 1 July 2002 on an ongoing basis. Consequently, the transactions and working capital balances effective that date have been included in the financial statements of the Company.

Icon Hospitality Private Limited ('Icon' or 'the Subsidiary') was incorporated on 28 January 2003 as a private limited company in India providing hospitality services. The Company operates Royal Orchid Central in Bangalore, India and has leased the land, building and certain assets from Sacred Hospitality Private Limited for a period of 25 years.

6. *Basis of consolidation*

On 4 April 2003, the Company entered into a tri-partite Shareholders' Partnership Agreement ('the Agreement') with Icon and the minority shareholders. As per the terms of the Agreement, equity shares of the subsidiary would be held by the Company and the minority holders in the ratio of 51.22 percent and 48.78 percent, with the ratio required to be maintained throughout the tenure of the arrangement. Any changes in this ratio would result in the issuance and allotment of additional shares to ensure the consistency of the agreed ratio.

Further, the Agreement also provided for the Company to appoint the majority of the directors to the Board of Icon, of which one would be the Managing Director having a casting vote on all matters subject to a vote. Pursuant to this agreement, the Company invested Rs 3,500,000 in February and March 2003 which was recorded as share application money pending allotment. The shares against this application were allotted on 24 March 2004.

Although in April 2003, the Company did not have control over the subsidiary through ownership of more than 50 per cent of the voting power, on entering into the Agreement, the Company obtained the right to control the Board of Directors of Icon. Consequently, in accordance with Accounting Standard 21 – Consolidated Financial Statements, the operations of the subsidiary have been consolidated with the operations of the Company effective 4 April 2003.

As mentioned above, these shares were allotted on 24 March 2004 and represent 58.33 per cent of the paid up share capital of the subsidiary. As the Agreement provides for the shareholding ratio to be maintained, any excess allotment of equity shares does not provide additional control over the operations of the subsidiary. Consequently, Minority Interest has been recorded at 48.78 per cent of the voting capital of the subsidiary as against 41.67 per cent for all periods (which represented the percentage of shares held by the minority shareholders). Further, on 1 April 2005, the Company transferred 4,270 equity shares held by it in Icon Hospitality Private Limited, to the minority shareholders, for no consideration, thereby making the equity interest of the Company and minority shareholders consistent with the provisions of the Agreement.

Capital reserve represents the excess of the Company's share in the equity of Icon Hospitality Private Limited over the cost of the investment at the date of the shareholders' partnership agreement.

The consolidated operations of the Company and its subsidiary, Icon Hospitality Private Limited, is hereinafter collectively referred to as 'the Group'.

7. *Significant accounting policies*

ix. Basis of preparation

The financial statements are prepared on accrual basis under the historical cost convention and in accordance with the applicable accounting standards issued by the Institute of Chartered Accountants of India ('ICAI'). The accounting policies have been consistently applied unless otherwise stated.

x. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates. Significant estimates used by management in the preparation of these financial statements include the estimates of the economic useful lives of the fixed assets, provisions for bad and doubtful debts and accruals for leave encashment and gratuity.

xi. Principles of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries, which are more than 50 percent owned or controlled. Please refer to Note 1 for the description of the Group.

The financial statements are prepared in accordance with the principles and procedures for the preparation and presentation of consolidated financial statements as laid down under AS-21 prescribed by the ICAI. The consolidated financial statements have been combined on a line-by-line basis by adding the book values of like items of assets, liabilities, income and expenses after eliminating intra-group balances/transactions and resulting unrealized profits in full. The amounts shown in respect of reserves comprise the amount of the relevant reserves as per the balance sheet of the parent company and its share in the post-acquisition increase in the relevant reserves of the consolidated entity.

Minority interest represents the amount of equity attributable to minorities at the date on which investment in a subsidiary is made and its share of movements in the equity since that date. Any excess consideration received from minority shareholders of subsidiaries over the amount of equity attributable to the minority on the date of investment is reflected under Reserves and Surplus.

Consolidated financial statements are prepared using uniform accounting policies across the Group.

xii. Revenue recognition

Revenues comprise income from the sale of rooms, food and beverages and allied services during a guest's stay at the hotel. Room revenue is recognized based on occupation and from sale of food and beverages and other allied services, as the services are rendered.

Unbilled revenues represent revenues recognized which have not been billed to the customers at the balance sheet date and are billed subsequently.

xiii. Fixed assets

Fixed assets are stated at cost less accumulated depreciation. All costs relating to acquisition and installation of fixed assets are capitalised. Advances paid towards acquisition of fixed assets before the financial year-end are classified as capital work in progress.

Financing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use.

The carrying amounts are reviewed at each balance sheet date when required to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

Expenditure directly relating to expansion is capitalized only if it increases the value of the asset beyond its original standard of performance.

xiv. Depreciation

Depreciation on fixed assets is provided on the Straight Line method, using the higher of the rates specified in Schedule XIV to the Companies, Act, 1956 or management estimates of the economic useful lives of such assets. These rates are specified below:

Asset Category	Rates of Depreciation (%)
Buildings	1.96%
Plant and machinery	4.75%

Office equipment	4.75%
Computers and related equipment, including software	16.21%
Furniture & fittings	9.50% to 20%
Vehicles	9.50%

Leasehold improvements are amortized over the period of the lease.

xv. Impairment of assets

The Group assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

xvi. Inventory

Inventory comprises stock of food and beverages and operating supplies and is carried at the lower of cost and net realizable value. Cost includes all expenses incurred in bringing the goods to their present location and condition and is determined on a Weighted Average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and to make the sale.

xvii. Foreign currency transactions

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transaction. Monetary foreign currency assets and liabilities are translated into rupees at the rates of exchange prevailing on the balance sheet date. The differences in translation of monetary assets and liabilities and realised gains and losses on foreign currency transactions, other than those related to fixed assets are recognised in the profit and loss account. Exchange differences in respect of liabilities incurred to acquire fixed assets are adjusted in the carrying cost of fixed assets.

xviii. Leases

Finance leases

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised.

For hotel properties i.e. land and buildings, taken on leases along with related assets as a part of a combined lease arrangement, the Company determines whether these assets acquired are integral to the land and building. If these assets are integral, the Company analyses the nature of the lease arrangement on a combined basis for all assets. If the assets are not integral to the land and building, the Company evaluates each asset individually, to determine the nature of the lease.

If there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term, capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognized as an expense in the Profit and Loss account on a straight-line basis over the lease term.

xix. Retirement benefits

The Company provides for gratuity, a defined benefit plan in accordance with the rules of the Company based on an actuarial valuation carried out at the balance sheet date, by an independent

actuary. Contributions payable to the recognized provident fund and Employee State Insurance Scheme, which are defined contribution schemes, are charged to the profit and loss account as incurred.

xx. Leave encashment

The Company provides for the leave encashment liability at the balance sheet date based on the accumulated leave balance of the employees and the last drawn salary.

xxi. Taxes on income

Tax expense comprises both current and deferred taxes. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits.

Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

xxii. Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period. The weighted average numbers of equity shares outstanding during the period are adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split; and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

xxiii. Provisions and contingent liabilities

The Group creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

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ANNEXURE 4 – NOTES TO THE CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES AND PROFITS AND LOSSES, AS RESTATED

(All amounts in Rupees millions, unless otherwise stated)

1. Adjustments on account of qualifications in auditors' reports

The auditor of the Group, M/s R Subramanian & Co. had qualified their report to the members of the Company on the unconsolidated financial statements for the years ended March 31, 2003, 2002 and 2001 and the auditors of the Group, M/s Walker Chandiok & Co. have also qualified their opinion on the Consolidated financial statements of the group as at and for the period/year ended June 30, 2005 and March 31, 2005 attributable to: (a) incorrect accounting practices, or (b) failures to make provisions or other adjustments. These qualifications along with the related notes to the accounts are reproduced below:

a) As regards to Notes to the Financial Statements

Year ended 31 March 2001

- *Note 7 to the financial statements – Reconciliation of capital creditors*

Notes 7 to the financial statements read as follows:

Further work on the project was still in progress as at 31 March 2001 and hence proper reconciliation of party accounts are not made. Any adjustment arising at the time of settlement will be accounted for, on final closure of the contract / project.

- *Note 10 to the financial statements – allotment of equity shares to a director*

Note 10 to the financial statements read as follows:

The Company has allotted 6,000,000 equity shares of Rs.10 each fully paid up, to a director upon conversion of the leasehold right of the land at a market price mutually accepted between the Company and the director.

- *Note 18 to the financial statements – estimations in classification of fixed assets*

Note 18 to the financial statements read as follows:

In view of completion of the hotel in stages, the allocation and classification of Pre-Operative expenditure and fixed assets will undergo certain changes upon the final completion of the projects in full. Hence, the allocation/clarification made in the present accounts is based on approximations.

- *Note 19 to the financial statements – non – presentation of a statement of pre-operative expenditure*

Note 19 to the financial statements reads as follows:

Due to inadequate particulars with regard to expenditure incurred in certain cases, the statement of Pre-Operative expenditure is not attached to these accounts. However, the figures furnished by the Managing Director have been relied upon, for the preparation of accounts

Year ended 31 March 2002

- *Note 7 to the financial statements - Reconciliation of capital creditors*

Note 7 to the financial statements read as follows:

Further work on the project was still in progress as at 31 March 2002 and hence proper reconciliation of party accounts is not made. Any adjustment arising at the time of settlement will be accounted for, on final closure of the contract/Project.

- *Note 10 to the financial statements – allotment of equity shares to a director*

Note 10 to the financial statements read as follows:

The Company has allotted 6,000,000 equity shares of Rs.10 each fully paid up, to a director upon conversion of the leasehold right of the land at a market price mutually accepted between the Company and the director.

- *Note 14 to the financial statements – Reconciliation of sundry party and bank accounts*

Note 14 to the financial statements read as follows:

Confirmations/reconciliation is pending from sundry parties/bankers. The Company is in the process of reconciling the bank accounts.

- *Note 17 to the financial statements – estimation in classification of fixed assets*

Note 17 to the financial statements read as follows:

In view of completion of the Hotel in stages, the allocation and classification of Pre-Operative expenditure and fixed assets will undergo certain changes upon the final completion of the projects in full. Hence, the allocation/clarification made in the present accounts is based on approximations.

Year ended 31 March 2003

- *Note 11 to the financial statements – reconciliations with sundry parties*

Note 11 to the financial statements read as follows:

Confirmation/reconciliations is pending from sundry parties

- *Note 14 to the financial statements – acquisition of Hotel Harsha's operations*

Note 14 to the financial statements read as follows:

In accordance with the agreement entered into between Royal Orchid Hotels Limited and Hotel Harsha, the entire business of Hotel Harsha has been taken over by Royal Orchid Hotels Limited with effect from 1 July 2002 on an ongoing basis. Due to the above, all the transactions for the period relating to sales and services, expenditure incurred along with all the sundry creditors and sundry debtors and direct liabilities and assets relating to the above are combined along with the respective accounts in the books of Royal Orchid Hotels Limited and duly incorporated. Further, all licenses, sales tax registrations and other statutory requirements are in the process of transfer. However, no fixed assets and other movable assets have been taken over by Royal Orchid Hotels Limited .

- *Note 17 to the financial statements – reconciliation of capital creditors*

Note 17 to the financial statements reads as follows:

Further work on the project was still in progress as at 31 March 2003 and hence reconciliation of parties accounts are not made. Any adjustments arising at the time of the settlement will be accounted for on final closure of the contract/project.

Year ended 31 March 2005

- *Note 7(e) of Schedule 23 to the consolidated financial statements – transfer and use of licenses*

Note 7(e) of Schedule 23 to the consolidated financial statements reads as follows:

Sacred Hospitality Private Limited has transferred to the Company's subsidiary, the right to use its license to sell liquor at the Royal Orchid Central for a consideration included in the lease rentals. In accordance with the terms of the deed of the license, the taxes are to be paid by Icon and the revenues from such sales are recorded in their financial statements. As per the provisions of the Karnataka Excise Act, 1965, transfer of leases or licenses to sell liquor requires the approval of the State Government. Icon has not yet applied to the State Government for such transfer.

- *Note 8 of Schedule 23 to the consolidated financial statements – remuneration to the directors of the subsidiary*

Note 8 of Schedule 23 to the consolidated financial statements reads as follows:

As per the provisions of Section 309 of the Companies Act, 1956, remuneration payable to directors not in the whole time employment of a Company cannot exceed 3 percent of the net profits for the year, without the prior approval of the Central Government. The total remuneration paid to the directors of the subsidiary by the subsidiary during the year ended 31 March 2005 exceeds the limits as specified in Section 309 by Rs 7,347,377. On 21 May 2005, the Company has applied to the Central Government seeking an approval of the amounts paid in excess of the limits specified above, the approval for which has not been received till date.

Period ended 30 June 2005

- *Note 7(e) of Schedule 23 to the consolidated financial statements – transfer and use of licenses*

Note 7(e) of Schedule 23 to the consolidated financial statements reads as follows:

Sacred Hospitality Private Limited has transferred to the Company's subsidiary, the right to use its license to sell liquor at the Royal Orchid Central for a consideration included in the lease rentals. In accordance with the terms of the deed of the license, the taxes are to be paid by Icon and the revenues from such sales are recorded in their financial statements. As per the provisions of the Karnataka Excise Act, 1965, transfer of leases or licenses to sell liquor requires the approval of the State Government. Icon has not yet applied to the State Government for such transfer.

- *Note 8 of Schedule 23 to the consolidated financial statements – remuneration to the directors of the subsidiary*

Note 8 of Schedule 23 to the consolidated financial statements reads as follows:

As per the provisions of Section 309 of the Companies Act, 1956, remuneration payable to directors not in the whole time employment of a Company cannot exceed 3 percent of the net profits for the year, without the prior approval of the Central Government. The total remuneration paid to the directors of the subsidiary by the subsidiary during the period ended June 30, 2005 and the year ended 31 March 2005 exceeds the limits as specified in Section 309 by Rs 1.8 million and Rs 7.35. On 21 May 2005, the Company has applied to the Central Government seeking an approval of the amounts paid in excess of the limits specified above for the year ended 31 March, 2005, the approval for which has not been received till date.

Since the effect of these qualifications have not been quantified, it has not been possible to adjust the differences in the 'Consolidated Statements of Assets and Liabilities and Profits and Losses, as Restated'

2. Adjustments resulting from changes in accounting policies

a. Depreciation

For and upto the year ended 31 March 2003, the Company provided for depreciation on fixed assets on a straight line basis at the rates specified in Schedule XIV to the Companies Act, 1956. Effective 1 April 2003, the Company changed the method of providing for depreciation from the straight-line basis to the written down value basis at the rates prescribed in Schedule XIV. The Company changed this method back to the straight line basis effective 1 April 2004 as management was of the view that the use of the straight line method would better reflect the pattern of usage of these assets in the financial statements.

Further, effective 1 April 2004, the Company fully depreciated assets costing individually less than Rs. 5,000 in the year of purchase, as against the depreciation rate applicable to the respective asset categories.

Accordingly the depreciation for the five years ended 31 March 2005 has been charged based on the straight line basis and assets individually costing less than Rs 5,000 have been depreciated fully in the year of purchase with the impact for each of the years presented being adjusted in the respective years in the 'Consolidated Statement of Assets and Liabilities, as Restated' and the 'Consolidated Statement of Profits and Losses, as Restated.'

b. Deferred taxation

The Company adopted the provisions of AS 22 – *Accounting for taxes on Income*, issued by the ICAI for the first time for the accounting period commencing effective 1 April 2002.

In accordance with the provisions of AS - 22, in the absence of virtual certainty of realisation of the carry forward losses, the Company did not recognise any deferred tax asset for the accumulated losses as at 31 March 2003. in its financial statements. Further, as at 31 March 2004, the Company charged the net deferred tax liability on the first time adoption of the standard, aggregating Rs 6.5 million to the profit and loss account for the year then ended.

As the Company has been able to completely utilise the accumulated losses as of March 31, 2005, for the preparation of these Consolidated Statement of Assets and Liabilities and Profits and Losses, as restated, the deferred tax asset/liability, including the effect of the carry forward losses has been recorded in the year of origination with a corresponding effect in the 'Consolidated Statement of Profit and Loss, as restated' and 'Consolidated Statement of Assets and Liabilities, as Restated.'

3. Adjustments relating to previous years

a. Prior period expenses

During the year ended 31 March 2005, the Company recorded prior period expenses being errors and/or omission for periods prior to 1 April 2004. Accordingly the effect of these prior period amounts has been adjusted in the period of origination with a corresponding charge to the 'Summary Statement of Profits and Losses, as Restated' with a corresponding credit to the current years' summary statements.

b. Accounting for gratuity

Prior to accounting periods commencing 1 April 2004, the Company provided for gratuity payable to employees at Royal Orchid Hotel based on management's estimate and did not provide for gratuity for employees at the Harsha Hotel. Effective 1 April 2004, the Company has begun accounting for gratuity based on an actuarial valuation by an independent actuary as at the balance sheet date.

Accordingly, for the preparation of these Consolidated Statement of Assets and Liabilities and Profits and Losses, as Restated, the Company has recorded the gratuity provision in the year to which the liability pertains, based on an independent actuarial valuation on the balance sheet date, in the 'Consolidated Statement of Assets and Liability, as Restated' with a corresponding charge to the 'Consolidated Statement of Profit and Loss, as Restated'.

c. Write back of excess provisions pertaining to prior years

During the year ended 31 March 2005, the Company has written back to the profit and loss account provisions and accruals made on estimates which had been provided for in earlier years but are no longer considered payable. Accordingly, the effect of these write backs has been considered in the respective years in which these accruals were originally recorded with a corresponding reduction in the expenses in the 'Consolidated Statement of Profit and Loss, as Restated'.

4. Other material adjustments

a. Property taxes

During the year ended 31 March 2004, the Company received property tax demands from the local municipal bodies pertaining to the period 2000 to 2003. The Company accounted for this tax demand based on an internal assessment of potential exposure covering period upto the year ended 31 March 2004 in the Consolidated Statement of Assets and Liabilities and Profits and Losses, as Restated, for the year ended 31 March 2005. Accordingly, for the purpose of this statement, property tax expenditure pertaining to each of the years prior to the year ending March 31, 2005 has been recorded, in the respective years of the 'Consolidated Statement of Profits and Losses, as Restated'.

Further, in October 2005 the Company received a final notice of its property tax liability for the period upto 31 March 2005 as a result of the completion of the assessment of the Company's liability by the local municipal bodies which was used to determine the final liability on this account. Upon receipt of this notice, the Company has rectified the total property tax expenditure pertaining to each of the years in the respective years of the 'Consolidated Statement of Profits and Losses, as Restated'.

b. Employee state insurance dues

In 2005, the Company received a show cause notice from the Employees State Insurance Corporation for short payments of contributions at the Royal Orchid Hotel pertaining to the years ending 31 March 2002 and 2003. The Company provided for this amount in the financial statements for the year ended 31 March 2005. Accordingly, the effect of this amount has been adjusted to the period to which it pertains through charge to the 'Consolidated Statement of Profits and Losses, as Restated'.

5. Material reclassifications

a. Security deposit for the right to use land

In 1992, the Company has entered into an agreement with its Managing Director for the payment of a refundable security deposit of Rs 60 million for the right to use his share of the land on which the Royal Orchid Hotel has been constructed. This amount was erroneously classified as Land in the schedule of fixed assets until the year ended 31 March 2004. During the year ended 31 March 2005, this amount has been reclassified as a security deposit under Loans and Advances. Consequently, this amount has been reclassified for all the periods presented in the 'Consolidated Statement of Assets and Liabilities, as Restated' for the respective years.

6. Material changes in activities

a. Consolidation of the results of operations of Royal Orchid Harsha

In accordance with terms of the agreement between the Company, Hotel Stay Longer Private Limited and Baljee Hotels and Real Estate Private Limited, the Company has acquired the operations of Royal Orchid Harsha with effect from 1 July 2002 as a going concern. Consequently the Consolidated Statement of Assets and Liabilities and Profit and Losses, as Restated, for the year ended 31 March 2003 includes the income and expenses of Royal Orchid Harsha with effect from 1 July 2002 and also the sundry debtors and creditors as at that date. The summary financial statements of the Company for the year ended 31 March 2003 included Rs 30.4 million of revenues and Rs 2.3 million of net profit pertaining to the operations of Royal Orchid Harsha for that period prior to

restatement. Subsequent financial statements of the Company include the operations of Royal Orchid Harsha for the complete reporting years.

b. Consolidation of the results of operations of Icon Hospitality Private Limited

As discussed in Note 2 of Annexure 3, the Company acquired control of its subsidiary effective 4 April 2003. Consequently, the Consolidated Summary Statements for the years ended 31 March 2005 and 2004 include the results of operations and assets and liabilities, as restated of Icon Hospitality Private Limited. The Consolidated Summary Statements of the Group for the year ended 31 March 2004 include Rs 120.8 million of revenues and Rs 23.9 million of net profit pertaining to Icon Hospitality Private Limited for the period from April 4, 2003 to 31 March 2004, prior to restatement. Therefore the financial information for the years ended 31 March 2005 and 2004 is not directly comparable with the previous years.

7. **SECURED LOANS**

		30 June 2005	31 March 2005	31 March 2004
Term loans from banks	(a)	192.16	197.98	214.71
Vehicle loans	(b)	9.63	4.47	0.50
Interest accrued and due on term loans		-	1.34	-
		201.79	203.79	215.21

Notes:

- c) During the year ended 31 March 2004, the Company availed a term loan facility of Rs 250 million from the Housing and Urban Development Corporation of India ('HUDCO') for the expansion activities of the Company that carried an interest rate of 11.25 per cent per annum which was subsequently revised to 9.75 per cent per annum. Of the above, the Company availed Rs 208 million with the balance facility remaining unutilised. This loan was repayable in 36 quarterly instalments of Rs 6.9 million each ending in June 2013 and was secured against the land and buildings of Hotel Royal Orchid and Royal Orchid Harsha with an escrow over the collections from sales settled through credit cards at both hotels.

Additionally, this borrowing was backed by the personal guarantees of Mr. Chander K Baljee, the Managing Director of the Company and Mrs. Sunita Baljee, Director of the Company and a corporate guarantee from Baljee Hotels and Real Estate Private Limited, a company under the same management.

On 16 December 2004, the Company was sanctioned a term loan from the State bank of Hyderabad ('the Bank') for Rs 300 million. The company drew down Rs. 192 million, of which Rs 154 million was utilised towards the repayment of the loan outstanding from HUDCO with the balance of Rs 38 million being utilised for the purposes of the expansion by the Company. This loan carries an interest rate of 3 per cent below the Prime Lending Rate ('PLR') of the Bank subject to a maximum of 9.75 per cent per annum. This loan is secured by way of an equitable mortgage of the land and building of the Hotel Royal Orchid and a first charge on the present and future fixed assets of the Company.

Additionally, this borrowing has also been backed by the personal guarantees of the Mr Chander K Baljee, the Managing Director and Mrs Sunita Baljee, Director of the Company and a corporate guarantee from Baljee Hotels and Real Estate Private Limited. This loan is repayable in 24 quarterly instalments of Rs 12.5 million each, commencing from 31 December 2005.

The Company also has an overdraft facility with the State Bank of Hyderabad that has a limit of Rs 10 million. This facility carries an interest rate equal to the PLR of the Bank and is secured by the hypothecation of the present and future inventory and receivables of the Company and an extension of the charge on all the fixed assets of the Company in addition to personal guarantees of the Mr Chander

K. Baljee, Mrs Sunita Baljee, and a corporate guarantee from Baljee Hotels and Real Estate Private Limited. The Company has not utilised this facility as at 30 June 2005.

- d) Other loans represent loans taken to purchase vehicles that are secured by the hypothecation of the vehicles concerned these loans carrying interest rates varying between 6.00% and 8.50% per annum and are repayable from through 2009.

Amounts due in one year as at 30 June 2005 are as follows:

Term Loans	37.50
Vehicle Loans	3.00
	40.50

8. UNSECURED LOANS

	30 June 2005	31 March 2005	31 March 2004
From others	1.28	1.28	7.00
		1.28	7.00

Note:

The amount outstanding as of 30 June 2005 represents amounts borrowed from a company under the same management. This loan is interest free and repayable on demand.

9. SUNDRY DEBTORS

	30 June 2005	31 March 2005	31 March 2004
(Unsecured)			
Debts outstanding for a period exceeding six months:			
- Considered good	0.34	1.57	1.69
- Considered doubtful	1.66	1.07	1.82
	2.00	2.64	3.51
Other debts			
- Considered good	37.56	26.56	20.44
	37.56	26.56	20.44
Less: Provision for doubtful debts	(1.66)	(1.08)	(1.82)
	37.90	28.12	22.13

10. LOANS AND ADVANCES

		30 June 2005	31 March 2005	31 March 2004
(Unsecured, considered good)				
Advances recoverable in cash or in kind or for value to be received				
Security deposits	(a)	84.40	84.50	80.67
Prepaid expenses	(b)	12.79	17.42	1.62
Advances to suppliers		0.73	3.94	2.63
Due from related parties	(c)	9.27	9.32	14.35
Advance tax (net of provision)		1.46	4.62	-
Interest Accrued		0	0.08	-
Others		3.41	0.96	0.51
		112.06	120.83	99.78

Note

- a) Security deposits includes 60 million being a interest-free, refundable security deposit with the Managing Director for his 50 per cent interest in the land taken on lease from the KSTDC for the

Hotel Royal Orchid. This deposit is repayable to the expiration of the lease agreement with the KSTDC.

Security deposits also include Rs 10 million being an interest free, refundable lease deposit with companies under the same management for the buildings and assets at Royal Orchid Harsha. This amount is repayable on the termination of the lease.

- b) Prepaid expenses at 30 June 2005 include Rs 7.49 million representing insurance premium paid towards two Keyman Insurance policies taken by the subsidiary for two of its directors. The premiums are for the period from 31 March 2005 to 31 March 2006.
- c) Dues from related parties represent amounts dues from companies under the same management.

11. OTHER INCOME

	Quarter ended June 30	Year ended March 31				
		2005	2004	2003	2002	2001
Other Income, as restated	0.60	6.41	10.70	5.87	0.55	0.52
Net Profit/(loss) before tax as restated	63.59	215.67	82.18	4.50	(29.92)	(3.72)
%	0.94	2.97	13.02	130.44	(1.83)	(13.98)
Sources of income						
Gain on sale of investments		1.37	-	-	-	-
Interest income	0.22	2.35	1.17	0.35	0.55	0.02
Interest subsidy		-	6.97	3.18	-	-
Management fees		-	-	1.20	-	-
Sundry creditors written back		1.32	-	-	-	-
Rent	0.07	0.24	0.18	-	-	-
Miscellaneous income	0.31	1.13	2.38	1.14	-	0.50
	0.60	6.41	10.70	5.87	0.55	0.52

Computation of Net profit before tax as restated

	30 June 2005	31 March 2005	31 March 2004	31 March 2003	31 March 2002	31 March 2001
Net profit as restated	43.90	129.87	43.48	2.38	(18.67)	(1.37)
Current tax expense for the period/year	16.37	53.50	11.50	0.20	-	-
Deferred tax expense for the period/year	(0.80)	20.00	6.50	-	-	-
Minority Interest	4.11	14.40	7.30	-	-	-
Income Tax provision written back		-	(0.80)			
Deferred tax related restatement adjustment		(2.10)	14.20	1.92	(11.25)	(2.35)
Net profit/ before tax as restated	63.59	215.67	82.18	4.50	(29.92)	(3.72)

12 Leases

Operating leases

The key operating lease arrangements entered into by the Group are summarised below:

Hotel Royal Orchid

The Company has entered into various non-cancellable tri-partite agreements along with its Managing Director and the Karnataka State Tourism Development Corporation ('KSTDC') to lease lands on which the hotel premises has been constructed and adjacent areas. The primary lease periods for these

agreements is 30 years and are further extendable by a period between 10 to 30 years at the option of the Company and carry an escalation provision for the increase in annual rent by 15 per cent every 10 years thereafter.

Additionally, the Company has also entered into an agreement with its managing director for the use of his 50 percent interest in the leased lands with the value of this consideration being determined at Rs 60 million, payable as an interest free security deposit repayable on the termination of the lease with KSTDC. This consideration could be discharged either in cash or through the issue of equity shares of the Company. The Company discharged this consideration through the allotment of 6 million equity shares at par through July 1999.

Royal Orchid Harsha

Effective July 2002, the Company entered into a tri-partite agreement with Hotel Stay Longer Private Limited and Baljee Hotels and Real Estates Private Limited, Companies under the same management, to lease the hotel premises and related assets at Hotel Harsha. This agreement was for an initial period of 11 months, renewable at the option of the Company and it has deposited an interest-free security deposit of Rs 10 million with Baljee Hotels and Real Estate Private Limited, which is repayable on the termination of the lease agreement.

Royal Orchid Metropole

In May 2004, the Company entered into a lease agreement with Jungle Lodges and Resorts Limited ('JLR'), a Government of Karnataka Undertaking for the use of the land and building representing Hotel Metropole at Mysore for a non-cancellable period of 15 years. As a consideration, the Company is required to pay an annual amount comprising a fixed charge per annum and a revenue share representing 10% of the annual revenues in excess of Rs 25 million. As the commercial operations commenced only in October 2004, no revenue share charge has been recorded during the year ended 31 March 2005. As a part of this consideration, the Company has also issued a bank guarantee of Rs 6 million to the lessor for the period of the lease.

Royal Orchid Central

The business of Icon comprises revenues from the operation of the Royal Orchid Central at Bangalore. This operation is carried out through a lease entered into with Sacred Hospitality Private Limited in January 2003. As per the provisions of this arrangement, the Company has leased the land, the associated hotel building and other assets necessary for the operation of the hotel under a non-cancellable operating lease arrangement for a period of five years. This agreement was renewed in June 2004 extending the period of the lease for a further period of 20 years ending on 30 January 2028.

As per the agreement, Icon is required to make annual payments at 33 percent of net room revenues determined after reducing certain allowable expenses from the room revenues for the period, or a minimum committed amount, whichever is higher. This lease includes an escalation provision of 15 percent from the previous rent, every three years commencing from July 2010. This agreement also requires the Company to invest Rs 50 million towards renovation and improvement of the concerned property within three years from the date of the arrangement or within six months from obtaining a favourable order from the Supreme Court of India

The lease expense for cancellable and non-cancellable operating leases during the quarter ended 30 June 2005, years ended 31 March 2005, 2004, 2003 and 2002 was Rs 15.68 million, Rs 54.1 million, Rs.27.70 million, Rs. 0.80 million and Rs. 0.54 million respectively.

The details of lease commitments in terms of minimum lease payments within the non-cancellable period at 30 June 2005 are as follows:

Payments falling due:	Amount
Within 1 year	30.00
Later than one year but not later than five years	121.10
Later than 5 years	897.40
TOTAL	1,048.50

8. *Commitments and contingencies*

a) **Litigation**

- i) A legal case was filed by certain residents of the area in which Royal Orchid Central is located against Industrial Credit and Development Syndicate ('ICDS') (the owner of the premises before

Sacred Hospitality Private Limited) for the demolition of Manipal Center (the premises which also houses the hotel construction) on the grounds that the building is not constructed as per the building bye laws. However, the Company has not been made a party to these legal proceedings. Currently, the writ petition has been referred by the Supreme Court of India to the High Court of Karnataka for a resolution for the process and the judgment has been reserved for February 2008. Management believes that this litigation will have a favourable outcome and not adversely impact the operations of the Company.

Further, as per the terms of the lease agreement referred to in Note 4 above, in the event of an unfavourable order in this regard, the Company is entitled to terminate the lease, claim reasonable damages, if any and have a charge on the hotel property. The lessor also proposes to indemnify the Company against any loss or damage to the property from litigation pertaining to acts committed by the lessor prior and upto the period of the lease.

- ii) The Company has been named as a defendant in two civil suits filed restraining the Company from using certain parts of land taken on lease from the Karnataka State Tourism Development Corporation for the operation of the Royal Orchid Hotel, which are adjacent to the hotel premises. Consequently, these lands are currently not being utilised by the Company. These cases are pending with the Civil Courts and scheduled for hearings shortly. Management believes that these cases will be settled in its favour and will not adversely effect its operations.

b) Other commitments and contingencies

Particulars	June 30		March 31			
	2005	2005	2004	2003	2002	2001
Claims against the Company not acknowledged as debts	3.9	15.4	NQ	-	-	-
Counter guarantees given to bankers	-	-	4.3	-	-	NQ
Capital Commitments	30.62	41.5	-	-	20.0	69.0
Export obligation *	83.49*	68.8	NQ	NQ	NQ	NQ
TOTAL	118.01	125.7	4.3	-	20.0	69.0

NQ – Not quantified in the audited financial statements of the Company.

** the exports of the Company exceed this obligation at March 31, 2005*

c) Other matters

Sacred Hospitality Private Limited has transferred to the Company's subsidiary, the right to use its license to sell liquor at the Royal Orchid Central for a consideration included in the lease rentals. In accordance with the terms of the deed of the license, the taxes are to be paid by Icon and the revenues from such sales are recorded in their financial statements. As per the provisions of the Karnataka Excise Act, 1965, transfer of leases or licenses to sell liquor requires the approval of the State Government. Icon has not yet applied to the State Government for such transfer.

9. Related party transactions

- i) Parties where control exists

Parties where control exists include

Name of party	Nature of relationship
Chander K Baljee	Key management personnel
Sunita Baljee	Key management personnel
Presidency Caterers	Entity controlled by Directors
Harsha Farms Private Limited	Entity controlled by Directors
Baljee Hotels and Real Estate Private Limited	Entity controlled by Directors
Hotel Staylonger Private Limited	Entity controlled by Directors
Presidency College of Hotel Management	Entity controlled by Directors

- ii) Transactions with related parties during the year

Parties with whom transactions have taken place during the year include:

Name of party	Nature of relationship
Chander K Baljee	Key management personnel
Sunita Baljee	Key management personnel
Dayananda Pai	Key management personnel in subsidiary
Presidency Caterers	Entity controlled by Directors
Harsha Farms Private Limited	Entity controlled by Directors
Baljee Hotels and Real Estate Private Limited	Entity controlled by Directors
Hotel Staylonger Private Limited	Entity controlled by Directors
Presidency College of Hotel Management	Entity controlled by Directors
Arjun Baljee	Relative of Key Management Personnel

The transactions with related parties during the quarter ended 30 June 2005 is summarised below:

Nature of transaction	Associates	Key Management Personnel	Relatives of key management personnel	TOTAL
	(Rs.)	(Rs.)	(Rs.)	(Rs.)
General and administrative expenses incurred on behalf of related parties charged to related parties	1.30			1.30
Lease rent charges paid	0.26			0.26
Payments received on behalf of related parties	3.19			3.19
Payments made on behalf of related parties	1.16			1.16
Remuneration		3.14	0.06	3.20

The transactions with related parties during the year ended 31 March 2005 is summarised below:

Nature of transaction	Associates	Key Management Personnel	Relatives of key management personnel	TOTAL
	(Rs.)	(Rs.)	(Rs.)	(Rs.)
General and administrative expenses incurred on behalf of related parties charged to related parties	3.30	-	-	3.30
General and administrative expenses incurred by related parties on behalf of the company charged by related parties	0.11	-	-	0.11
Lease rent charges paid	1.05	-	-	1.05
Payments received on behalf of related parties	8.03	-	-	8.03
Payments made on behalf of related parties	3.62		-	3.62
Purchases made on behalf of associates recharged to associates	2.89	-	-	2.89
Remuneration	-	9.30	0.24	9.54

The transactions with related parties during the year ended 31 March 2004 is summarised below:

	Associates	Key Management Personnel	Relatives of key management personnel	TOTAL
General and administrative expenses incurred on behalf of related parties charged to related parties	3.06	-	-	3.06
General and administrative expenses incurred by related parties on behalf of the company charged by related parties	1.27	-	-	1.27
Lease rent charges paid	1.05	-	-	1.05
Payments received on behalf of related parties	5.40	-	-	5.40
Payments made on behalf of related parties	4.13	-	-	4.13
Purchases made on behalf of associates recharged to associates	2.61	-	-	2.61
Remuneration	-	3.42	0.24	3.66

The transactions with related parties during the year ended 31 March 2003 is summarised below:

	Associates	Key Management Personnel	Relatives of key management personnel	TOTAL
Lease rent charges paid	0.8	-	-	0.8
Management fees received	1.2	-	-	1.2
Remuneration	-	1.0	-	1.0

The transactions with related parties during the year ended 31 March 2002 is summarised below:

	Associates	Key Management Personnel	Relatives of key management personnel	TOTAL
Lease rent charges paid	0.54	-	-	0.54

Other transactions

- As discussed in Note 7, the borrowing from HUDCO has been backed by the personal guarantees of Mr. Chander K Baljee, the Managing Director of the Company and Mrs. Sunita Baljee, Director of the Company and a corporate guarantee from Baljee Hotels and Real Estate Private Limited, a company under the same management.
- The Company has also entered into an arrangement with Presidency College of Hotel Management (an associate) whereby the associate is provided the use of a part of the Royal Orchid Hotel premises rent free in consideration for an interest free security deposit of Rs 2.5 million.

Balances receivable/ (payable) from/to related parties is summarised below:

	June 30	March 31				
	2005	2005	2004	2003	2002	2001
Dues from associates	9.58	8.69	7.09	-	-	-
Security deposit given to associate	10.00	10.00	10.00	10.00	-	-
Unsecured loan received	1.28	1.27	1.27	1.80	1.27	-

from associate						
Due from Directors	1.18	-	-	-	-	-
Due to Directors	2.84	-	-	-	-	-
Security deposit given to key management personnel	60.00	60.00	60.00	60.00	-	-
Security deposit received from associate	2.50	2.50	2.50	2.20	2.38	-

10. Segmental Information

The Company's business comprises the operation of hotels, the services of which represent one business segment as they are subject to risks and returns that are similar to each other. Further the Company derives its entire revenues from services rendered in India. Consequently, the disclosure of business and geographic segment - wise information is not applicable to the Company.

ANNEXURE 5 – CONSOLIDATED STATEMENT OF CASH FLOWS, AS RESTATED

(Amounts in Rs millions)

	Quarter ended June 30	Year ended March 31,				
	2005	2005	2004	2003	2002	2001
A. Cash flow from operating activities						
Net profit/(loss) before taxation and minority interest, as restated (Refer note 11, Annexure 4)	63.59	215.67	82.18	4.50	(29.92)	(3.72)
Adjustments for:						
Depreciation	4.24	22.30	11.15	9.41	9.6	1.46
Investments written off	0.04	0.09	-	-	-	-
Loss on sale of fixed assets		0.07	-	-	-	-
Preliminary expenses written off		0.09	0.01	0.01	0.01	-
Finance Charges	3.89	24.82	29.61	36.31	27.74	0.01
Provision for Doubtful debts	0.97	1.07	1.82	-	-	-
Bad debts written off	1.09	1.49	-	-	-	-
Profit on the sale of investments		(1.37)	-	-	-	-
Interest / Dividend income	(0.22)	(2.27)	(1.17)	(0.35)	(0.55)	(0.02)
<i>Operating profit before working capital changes</i>	73.60	261.96	123.60	49.87	6.88	(2.27)
Movements in working capital :						
(Increase) in sundry debtors	(10.74)	(8.56)	(7.73)	(6.93)	(5.78)	(0.18)
(Increase)/Decrease in inventories	(1.78)	(1.50)	(0.40)	1.16	(4.21)	0.03
Change in unbilled revenue	(1.95)	0.86	(3.37)	(0.42)	(0.21)	-
(Increase)/decrease in bank deposits and margin monies	(8.42)	11.77	(33.97)	(1.71)	0.60	(1.85)
(Increase) in loans and advances	2.32	(30.55)	(15.85)	(15.99)	(0.04)	(3.63)
Increase/(decrease) in current liabilities and provisions	1.11	(7.15)	21.10	22.54	14.59	7.53
<i>Cash generated from operations</i>	54.14	226.83	83.38	48.53	11.83	(0.37)
Direct taxes paid (net of refunds)	(9.60)	(45.50)	(8.17)	-	-	-
Net cash from operating activities	44.54	181.33	75.21	48.53	11.83	(0.37)
B. Cash flows from investing activities						
Purchase of fixed assets and increase in capital work in progress	(36.96)	(142.84)	(42.96)	(19.73)	(52.12)	(97.06)
Proceeds from sale of fixed assets		0.10	-	-	-	-
Purchase of investments		(18.50)	(3.50)	-	(0.03)	(0.08)
Sale / maturity of investments		19.87	-	-	-	-
Interest received	0.05	2.27	1.17	0.35	0.55	0.02
Net cash used in investing activities	(36.91)	(139.10)	(45.29)	(19.38)	(51.60)	(97.12)
C. Cash flows from financing activities						
Proceeds from long-term borrowings		196.98	207.68	14.17	31.80	129.62
Repayment of long-term borrowings	(2.00)	(209.42)	(186.56)	(2.96)	(0.05)	-
Proceeds from issuance of capital		-	5.90	-	-	-
Share application money		-	(4.90)	-	-	-
Interest/Finance charges	(3.90)	(23.86)	(29.61)	(36.31)	(27.74)	(0.01)
Net cash used in financing activities	(5.90)	(36.30)	(7.49)	(25.10)	4.01	129.61
<i>Net increase in cash and cash equivalents (A + B + C)</i>	1.73	5.93	22.43	4.05	(35.76)	32.12
Cash and cash equivalents at the beginning of the year	43.07	37.14	14.71	1.09	36.85	4.73
Cash and cash equivalents at the end of the year (a)	44.80	43.07	37.14	5.14	1.09	36.85

Note:

- a The Group considers all highly liquid investments with a remaining maturity, at the date of purchase/investment, of three months or less to be cash equivalents.
- b Amounts for 2004 incorporate the effect of consolidation of Icon Hospitality Private Limited effective April 4, 2003.

Components of cash and cash equivalents as at	June 30	March 31				
	2005	2005	2004	2003	2002	2001
Cash and bank balances at 31 March	78.96	68.81	74.65	8.68	2.92	39.27
Less: Bank deposits and margin monies considered separately	34.16	25.74	37.51	3.54	1.83	2.42
	44.80	43.07	37.14	5.14	1.09	36.85

ANNEXURE 6 – CONSOLIDATED STATEMENT OF ACCOUNTING RATIOS AS RESTATED

Particulars	Quarter ended June 30, 2005	Year Ended March 31,				
		2005	2004	2003	2002	2001
Earnings/(loss) per share (Rs.)	2.40	7.10	2.38	0.13	(1.02)	(0.08)
Net Asset value per share (Rs.)	18.04	15.41	7.23	4.24	4.10	5.13
Return on Net Worth (%)	13.30	46.05	32.95	3.08	(24.93)	(1.46)
Weighted average number of equity shares in the period (in Nos.)	18,302,546	18,302,546	18,246,140	18,246,140	18,246,140	18,246,140

Notes:

1. These ratios have been computed as follows:

- a) Earnings/(loss) per share(Rs.) =
$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the period}}$$
- b) Net Asset Value per share (Rs.) =
$$\frac{\text{Net Worth excluding revaluation reserve at the end of the period/year}}{\text{Weighted average number of equity shares outstanding during the period}}$$
- c) Return/(loss) on Net Worth (%) =
$$\frac{\text{Net profit/(loss) attributable to equity shareholders}}{\text{Net Worth excluding revaluation reserve at the end of the period/year}}$$

2. Net profit/(loss) and net worth as appearing in the ‘Summary statement of Profit & Loss, as Restated’ has been used for the computation of these ratios.
3. Earnings per share have been computed in accordance with Accounting Standard 20 issued by the Institute of Chartered Accountants of India.
4. In the Annual General Meeting held on Sept 28, 2005, the members of the Company approved the issue of one bonus share for every equity share held on that date. Therefore, the weighted average number of shares and the Earnings/(loss) per share reflect the effect of this bonus issue for all the periods presented.

ANNEXURE 7 – CONSOLIDATED STATEMENT OF TAX SHELTERS AS RESTATED

(Amounts in Rupees millions)

Particulars	Quarter ended June 30 2005	Year Ended 31 March				
		2005	2004	2003	2002	2001
Profit/(loss) before tax as per Summary Statement of Profits and Loss, as Restated (Refer Note 11, Annexure 4)	63.59	215.67	82.18	4.50	(29.92)	(3.72)
Tax charge/(credit) on above (A)	21.40	78.91	29.48	1.65	(10.68)	(1.43)
Adjustments:						
Tax deduction available to a new industrial undertakings	(14.85)	(34.49)	-	-	-	-
Timing differences reversing during the tax holiday period	0.36	12.86	5.46	(2.99)	(2.73)	(3.56)
Deduction under Section 80 HHD						
Effect of rate change	(6.48)			-	-	-
Other permanent differences	3.65	(0.43)	(0.11)	4.23	1.11	1.17
Net Adjustments	(17.32)	(22.06)	5.35	1.24	(1.62)	(2.38)
Tax (saving)/charge thereon (B)	(5.83)	(8.07)	1.92	0.46	(0.58)	(0.92)
Total tax charge derived above (A-B)	15.57	70.84	31.40	2.11	(11.26)	(2.35)
Tax charge /(credit) on profits/losses as per Summary Statements of Profits and Losses, as restated	15.57	70.84	31.40	2.11	(11.26)	(2.35)

ANNEXURE 8 – CONSOLIDATED CAPITALISATION STATEMENT AS RESTATED

(Amounts in Rupees millions)

PARTICULARS	Pre-Issue as at June 30, 2005	Pre-Issue as at March 31, 2005	Post Issue*
Borrowings :			
Short-term Debt**	41.78	30.03	
Long-term Debt	161.28	173.76	
Total Debt	203.06	205.07	
Shareholders' funds:			
Share Capital	96.95	96.95	
Reserves	204.08	160.20	
Total Shareholders' Funds	301.03	255.36	
Total Capitalization	504.09	460.43	
Long-term Debt/Equity ratio	0.54	0.68	
Total Debt/Equity ratio	0.67	0.80	

** Share Capital and reserves and total shareholders' Funds post issue will be calculated on the conclusion of the Book Building process*

Note:

- a) Shareholders' funds do not include minority interest in the Company's subsidiary, Icon Hospitality Private Limited.

Short-term Debts are debts maturing within the next one year from the date of above statement and interest accrued and due on loans.

UNCONSOLIDATED FINANCIAL STATEMENTS OF ROYAL ORCHID HOTELS LIMITED

AUDITOR'S REPORT

The Board of Directors,
Royal Orchid Hotels Limited
Hotel Harsha
No. 11, Park Road
Bangalore – 560 001
India

Dear Sirs

At your request, we have examined the annexed financial information of Royal Orchid Hotels Limited ('the Company') for the quarter ended 30 June 2005 and the five financial years ended 31 March 2005, including the notes thereon being the last date to which the accounts of the Company have been made up. This financial information has been prepared by management and approved by the Board of Directors of the Company for the purpose of disclosure in the Offer Document being issued by the Company in connection with the Initial Public Offering ('IPO') for the issue of 6,820,000 of its equity shares having a face value of Rs. 10 each at an issue price to be arrived at by a book building process. (referred to as 'the Issue').

This financial information has been prepared in accordance with the requirements of

- i) Paragraph B (1) of Part II of Schedule II to the Companies Act, 1956 ('the Act');
- ii) The Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 ('the SEBI Guidelines') issued by the Securities and Exchange Board of India ('SEBI') on 19 January 2000 in pursuance to Section 11 of the Securities and Exchange Board of India Act, 1992 and related amendments;
- iii) The Guidance Note on the Reports in Company Prospectuses and the Guidance Note on Audit Reports/Certificates on Financial Information in Offer document issued by the Institute of Chartered Accountants of India ('ICAI'); and
- iv) Our terms of reference with the Company dated 18 April 2005, requesting us to carry out work, proposed to be included in the Offer document of the Company as aforesaid.

A) Unconsolidated Financial information as per the audited financial statements

1. We report that the Unconsolidated Statement of Assets and Liabilities, as Restated, of the Company as at 30 June 2005, 31 March 2005, 2004, 2003, 2002 and 2001 are as set out in Annexure 1 to this report after making such adjustments/restatements and regroupings as in our opinion are appropriate and are to be read in accordance with the Significant Accounting Policies as appearing in Annexure 3 and Notes to the Unconsolidated Statements appearing in Annexure 4 to this report.
2. We report that the Unconsolidated Statement of Profits and Losses of the Company for the quarter ended 30 June 2005 and years ended 31 March 2005, 2004, 2003, 2002 and 2001 are as set out in Annexure 2 to this report. These profits/losses have been arrived at after charging all expenses including depreciation and after making such adjustments/restatements and regroupings as in our opinion are appropriate and are to be read in accordance with Significant Accounting Policies as appearing in Annexure 3 and Notes to the Unconsolidated Statement appearing in Annexure 4 to this report.

3. The Unconsolidated Statement of Assets and Liabilities and Profits and Losses, as Restated, as at and for the period ended 30 June , 2005 and for the years ended 31 March 2005, 2004, 2003, 2002 and 2001 are based on the financial statements for the respective period/ years. The financial statements of the Company for the years ended 31 March 2004, 2003, 2002 and 2001 have been audited and reported upon by M/s R Subramanian and Co. and are as adopted by the members of the Company. We have relied on these audited financial statements. We have not carried out any audit tests or review procedures on the financial statements of the Company for the years ended 31 March 2004, 2003, 2002 and 2001 since we did not perform the audit. The financial statements for the quarter ended 30 June 2005 and the year ended 31 March 2005 have been audited by us.
4. Based on our examination of these Unconsolidated Statement of Assets and Liabilities and Profits and Losses, as Restated, we confirm that:
 - The Unconsolidated Statement of Assets and Liabilities and Profits and Losses, as Restated, of the Company have been restated with retrospective effect to reflect the significant accounting policies as adopted by the Company;
 - The prior period items which need to be adjusted in the Unconsolidated Statement of Assets and Liabilities and Profits and Losses, as Restated, have been adjusted in the period to which they relate;
 - *The Auditors in their report on the financial statements of the Company for the years ended 31 March 2004, 2003, 2002 and 2001 had included certain qualifications (reproduced in Note 1 of the Notes to the Unconsolidated Statement), for which, in the absence of any quantification, no adjustments have been made in the Unconsolidated Statement of Assets and Liabilities and Profits and Losses, as Restated;*
 - There are no extra-ordinary items which need to be disclosed separately in the Unconsolidated Statement of Assets and Liabilities and Profits and Losses, as Restated; and
 - Accounting Standard disclosures relating to Leases and Related Party Transactions have been provided from the year ended 31 March 2002 onwards.

B) Unconsolidated Other Financial Information

5. We have examined the following unconsolidated financial information relating to the Company proposed to be included in the Offer Document, as approved by you and annexed to this report:
 - i) Unconsolidated Statement of Cash Flows, as Restated, appearing in Annexure 5 to this report. The Unconsolidated Statement of Cash Flows, as Restated, is based on the financial statements for the respective years. We have not carried out any audit tests or review procedures on the financial statements of the Company for the respective years since we did not perform the audit for the years ended 31 March 2004, 2003, 2002 and 2001. The Unconsolidated Statement for the quarter ended 30 June 2005 and the year ended 31 March 2005 is based on the financial statements for the quarter ended 30 June 2005 and the year ended 31 March 2005, which have been audited by us;
 - ii) Accounting Ratios based on the Unconsolidated Statement, as Restated, as appearing in Annexure 6 to this Report;
 - iii) Statement of Tax Shelters as appearing in Annexure 7 to this report; and
 - iv) Capitalization Statement as at March 31, 2005 as appearing in Annexure 8 to this report.

The Company did not declare any dividend on equity shares for the quarter ended 30 June 2005 and years ended 31 March 2005, 2004, 2003, 2002 and 2001.

6. In respect of the 'Unconsolidated Financial Information as per the audited financial statements' and 'Unconsolidated Other Financial Information' contained in this report, we have relied upon the audited financial statements for the years ended 31 March 2004, 2003, 2002 and 2001 which were audited by another firm of Chartered Accountants, as referred to in paragraph 3 above. We have not carried out any audit tests or review procedures on the financial statements for the above periods since we did not perform the audit
7. *Subject to our comments above*, in our opinion the Unconsolidated Other Financial Information, as Restated, for the quarter ended 30 June 2005 and years ended

31 March 2005, 2004, 2003 2002, and 2001 have been prepared in accordance with Part II of Schedule II of the Act and the SEBI Guidelines.

8. The sufficiency of the procedures, as set forth in the above paragraphs, is the sole responsibility of the Company. We make no representation regarding the sufficiency of the procedures described above either for the purposes for which this report has been requested or for any other purpose.
9. This report should not be in any way construed as a re-issuance or re-dating of any of the previous audit reports issued by us or by any other firm of Chartered Accountants nor should it be construed as a new opinion on any of the financial statements referred to therein.
10. This report is intended solely for your information and for inclusion in the Offer Document in connection with the specific Public Offer of the Company and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For Walker, Chandio & Co
Chartered Accountants

Vinod Chandio
Partner
Membership No. 10093

New Delhi

ANNEXURE 1 –UNCONSOLIDATED CONSOLIDATED ASSETS AND LIABILITIES, AS RESTATED.

(Amounts in Rupees millions)						
Particulars	As at June 30	As at 31 March				
	2005	2005	2004	2003	2002	2001
A. Fixed Assets						
Gross block	286.33	284.86	208.41	207.44	204.02	151.90
Less: Accumulated Depreciation	54.10	50.42	31.20	20.48	11.07	1.47
Net Block	232.23	234.44	177.21	186.96	192.95	150.43
Capital Work in Progress	122.67	99.82	48.32	16.32	-	-
Net Block after adjustment for Revaluation Reserve	354.90	334.26	225.53	203.28	192.95	150.43
B. Investments	3.48	3.53	3.62	0.12	0.12	0.09
C. Current Assets, Loans and Advances						
Inventories	6.29	4.43	3.30	3.07	4.23	0.02
Sundry Debtors	26.60	19.95	15.50	12.89	5.96	0.18
Cash and Bank Balances	62.29	51.13	52.58	8.68	2.92	39.27
Unbilled Revenues	3.81	2.14	2.84	0.63	0.21	-
Loans and Advances	101.15	105.35	91.74	80.21	64.23	64.19
Deferred Tax Asset, net	-	-	-	12.14	14.06	2.80
	200.14	183.00	165.96	117.62	91.61	106.46
D. Liabilities and Provisions:						
Secured Loans	196.32	197.97	208.47	193.56	182.85	150.00
Unsecured Loans	1.28	1.28	7.00	7.54	7.04	8.12
Current Liabilities and Provisions	62.67	62.07	58.66	42.64	19.90	5.31
Deferred Tax Liability, net	25.10	25.90	8.53	-	-	-
	285.37	287.22	282.66	243.74	209.79	163.43
E. Net Worth	273.15	233.57	112.45	77.28	74.89	93.55
F. Represented by						
Share Capital	96.95	96.95	91.23	91.23	91.23	91.23
Reserves / (Accumulated Losses)	176.20	136.62	21.31	(13.85)	(16.23)	2.44
Reserves (Net of Revaluation Reserves)	176.20	136.62	21.31	(13.85)	(16.23)	2.44
Total	273.15	233.57	112.54	77.38	75.00	93.67
G. Misc. Expenditure to the extent not written off or adjusted	-	-	0.09	0.10	0.11	0.12
H. Net Worth (F-G)	273.15	233.57	112.45	77.28	74.89	93.55

To be read together with the notes forming part of the unconsolidated statement attached.

ANNEXURE 2 –UNCONSOLIDATED STATEMENT PROFIT AND LOSS, AS RESTATED

(Amounts in Rupees millions)

Particulars	Quarter ended June 30	Year Ended March 31				
		2005	2004	2003	2002	2001
Income						
Sales:						
Room revenues	80.40	288.45	143.35	71.24	26.90	0.01
Food and beverages	27.42	88.24	76.31	61.63	25.60	0.16
Other service charges	2.88	11.24	10.48	12.33	3.43	0.00
Other income	4.54	18.80	13.35	5.87	0.55	0.02
Total income	115.24	406.73	243.49	151.07	56.48	0.19
Expenditure						
Food and beverages consumed	8.29	27.47	26.27	18.28	9.57	0.10
Employee costs	11.41	34.37	23.38	18.30	8.85	0.06
Other operating expenses	16.85	65.76	53.63	35.34	12.96	0.00
General and administrative expenses	18.20	66.03	38.29	26.07	14.36	0.07
Preliminary expenses written off	-	0.09	0.01	0.01	0.01	0.00
Total expenditure	54.75	193.72	141.58	98.00	45.75	0.23
Profit/(loss) Before Depreciation, Interest and Tax	60.49	213.01	101.91	53.07	10.73	(0.04)
Depreciation	3.67	20.31	18.87	9.43	6.59	0.16
Interest & Finance Charges	3.82	24.42	29.43	36.31	27.74	0.01
Net Profit/(loss) before tax, change in accounting policy and prior period items	53.00	168.28	53.61	7.33	(23.60)	(0.21)
Impact of change in accounting policy	-	29.50	(25.65)	-	-	-
Prior period Expenses	-	(8.78)	-	-	-	-
Net Profit/(loss) before taxation	53.00	189.00	27.96	7.33	(23.60)	(0.21)
Current tax	(12.41)	(37.00)	(2.50)	(0.20)	-	-
Deferred tax	0.80	(19.40)	(6.50)	-	-	-
Net Profit/(loss) before adjustments	41.39	132.60	18.96	7.13	(23.60)	(0.21)
Adjustments						
Increase/(decrease) in net profits						
<u>Impact of change in accounting policies</u>						
Depreciation (refer Note 2(a) in Annexure 4)		(29.50)	33.79	(0.02)	(3.01)	(1.30)
Deferred taxes (refer Note 2(b) in Annexure 4)		2.03	(14.17)	(1.92)	11.25	2.35
<u>Impact of items of prior years</u>						
Prior period items (refer Note 3(a) in Annexure 4)		7.88	(4.44)	(1.02)	(1.11)	(1.31)
Provision for Gratuity (refer Note 3(b) in Annexure 4)		0.90	0.83	(0.27)	(0.68)	(0.78)
Excess provisions written back (refer Note 3(c) in Annexure 4)		(4.68)	0.81	-	-	0.50
Other adjustments						
Accrual for property taxes (refer Note 4(a) in Annexure 4)	(1.79)	4.27	(0.62)	(0.62)	(0.62)	(0.62)
Accrual for Employee State Insurance dues (refer Note 4(b) in Annexure 4)		1.80	-	(0.90)	(0.90)	-
Total Difference due to adjustments	(1.79)	(17.30)	16.20	(4.75)	4.93	(1.16)
Net Profits as restated	39.60	115.30	35.16	2.38	(18.67)	(1.37)

To be read with the notes forming part of the Unconsolidated Statement attached.

ANNEXURE 3 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

1. Background

Royal Orchid Hotels Limited ('the Company') was incorporated on 3 January 1986 as Universal Resorts Limited to carry on the business and management of hotels/holiday resorts and related services. The name of the Company was changed to Royal Orchid Hotels Limited on 10 April 1997. The Company currently operates three hotel properties-Royal Orchid Hotel, Bangalore, Royal Orchid Harsha, Bangalore and Royal Orchid Metropole, a heritage property in Mysore. Additionally the Company has also entered into a hotel operation agreement for the Royal Orchid Central, with its subsidiary, Icon Hospitality Private Limited, for which the Company receives an annual management fee.

The Company acquired the business of Royal Orchid Harsha effective 1 July 2002 on an ongoing basis. Consequently, the transactions and working capital balances effective that date have been included in the financial statements of the Company.

2. Significant accounting policies

i. *Basis of preparation*

The financial statements have been prepared on accrual basis under the historical cost convention and in accordance with the applicable accounting standards issued by the Institute of Chartered Accountants of India ('ICAI'). The accounting policies have been consistently applied unless otherwise stated.

ii. *Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates. Significant estimates used by management in the preparation of these financial statements include the estimates of the economic useful lives of the fixed assets, provisions for bad and doubtful debts and accruals for leave encashment and gratuity.

iii. *Revenue recognition*

Revenues comprise income from the sale of rooms, food and beverages and allied services during a guest's stay at the hotel. Room revenue is recognized based on occupation and revenues from sale of food and beverages and other allied services, as the services are rendered.

Unbilled revenues represent revenues recognized which have not been billed to the customers at the balance sheet date and are billed subsequently.

iv. *Fixed assets*

Fixed assets are stated at cost less accumulated depreciation and impairment losses. All costs relating to acquisition and installation of fixed assets are capitalised. Advances paid towards acquisition of fixed assets before the financial year-end are classified as capital work in progress.

Financing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use.

The carrying amounts are reviewed at each balance sheet date when required to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

Expenditure directly relating to expansion is capitalized only if it increases the value of the asset beyond its original standard of performance.

v. *Depreciation*

Depreciation on fixed assets is provided on the Straight Line method, using the higher of the rates specified in Schedule XIV to the Companies, Act, 1956 or management estimates of the economic useful lives of such assets. These rates are specified below:

Asset Category	Rates of Depreciation (%)
Buildings	1.96%
Plant and machinery	4.75%
Office equipment	4.75%
Computers and related equipment, including software	16.21%
Furniture & fittings	9.50% to 20%
Vehicles	9.50%

Leasehold improvements (including buildings constructed on leasehold land) are amortized over the period of the lease.

vi. *Impairment of assets*

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

vii. *Investments*

Investments made in the subsidiary of the Company are treated as long term investments and are carried at cost. However, provision for diminution in value is made to recognised a decline other than temporary in the value of the investments.

viii. *Inventory*

Inventory comprises stock of food and beverages and operating supplies and is carried at the lower of cost and net realizable value. Cost includes all expenses incurred in bringing the goods to their present location and condition and is determined on a Weighted Average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and to make the sale.

ix. *Foreign currency transactions*

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transaction. Monetary foreign currency assets and liabilities are translated into rupees at the rates of exchange prevailing on the balance sheet date. The differences in translation of monetary assets and liabilities and realised gains and losses on foreign currency transactions, other than those related to fixed assets are recognised in the profit and loss account. Exchange differences in respect of liabilities incurred to acquire fixed assets are adjusted in the carrying cost of fixed assets.

x. *Leases*

Finance Leases

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised.

For hotel properties i.e. land and buildings, taken on leases along with related assets as a part of a combined lease arrangement, the Company determines whether these assets acquired are integral to the land and building. If these assets are integral, the Company analyses the nature of the lease arrangement on a combined basis for all assets. If the assets are not integral to the land and building, the Company evaluates each asset individually, to determine the nature of the lease.

If there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term, capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognized as an expense in the Profit and Loss account on a straight-line basis over the lease term.

xi. Retirement benefits

The Company provides for gratuity, a defined benefit plan in accordance with the rules of the Company based on an actuarial valuation carried out at the balance sheet date, by an independent actuary. Contributions payable to the recognized provident fund and Employee State Insurance Scheme, which are defined contribution schemes, are charged to the profit and loss account as incurred.

xii. Leave encashment

The Company provides for the leave encashment liability at the balance sheet date based on the accumulated leave balance of the employees and the last drawn salary.

xiii. Taxes on income

Tax expense comprises both current and deferred taxes. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits.

Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

xiv. Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period. The weighted average numbers of equity shares outstanding during the period are adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split; and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

xv. Provisions and contingent liabilities

The Company creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

ANNEXURE 4 – NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS, AS RESTATED

(All amounts in Rupees millions unless otherwise stated)

1. Adjustments on account of qualifications in auditors' reports

The auditors of the Company, M/s R Subramanian & Co. had qualified their report to the members of the Company for the years ended 31 March 2003, 2002 and 2001 attributable to (a) incorrect accounting practices, or (b) failures to make provisions or other adjustments. These qualifications along with the related notes to the accounts are reproduced below:

a) As regards to Notes to the Financial Statements

Year ended 31 March 2001

- *Note 7 to the financial statements – Reconciliation of capital creditors*

Notes 7 to the financial statements read as follows:

Further work on the project was still in progress as at 31 March 2001 and hence proper reconciliation of party accounts are not made. Any adjustment arising at the time of settlement will be accounted for, on final closure of the contract / project.

- *Note 10 to the financial statements – allotment of equity shares to a director*

Note 10 to the financial statements read as follows:

The Company has allotted 6,000,000 equity shares of Rs.10 each fully paid up, to a director upon conversion of the leasehold right of the land at a market price mutually accepted between the Company and the director.

- *Note 18 to the financial statements – estimations in classification of fixed assets*

Note 18 to the financial statements read as follows:

In view of completion of the hotel in stages, the allocation and classification of Pre-Operative expenditure and fixed assets will undergo certain changes upon the final completion of the projects in full. Hence, the allocation/clarification made in the present accounts is based on approximations.

- *Note 19 to the financial statements – non – presentation of a statement of pre-operative expenditure*

Note 19 to the financial statements reads as follows:

Due to inadequate particulars with regard to expenditure incurred in certain cases, the statement of Pre-Operative expenditure is not attached to these accounts. However, the figures furnished by the Managing Director have been relied upon, for the preparation of accounts

Year ended 31 March 2002

- *Note 7 to the financial statements - Reconciliation of capital creditors*

Note 7 to the financial statements read as follows:

Further work on the project was still in progress as at 31 March 2002 and hence proper reconciliation of party accounts is not made. Any adjustment arising at the time of settlement will be accounted for, on final closure of the contract/Project.

- *Note 10 to the financial statements – allotment of equity shares to a director*

Note 7 to the financial statements read as follows:

The Company has allotted 6,000,000 equity shares of Rs.10 each fully paid up, to a director upon conversion of the leasehold right of the land at a market price mutually accepted between the Company and the director.

- *Note 14 to the financial statements – Reconciliation of sundry party and bank accounts*

Note 14 to the financial statements read as follows:

Confirmations/reconciliation is pending from sundry parties/bankers. The Company is in the process of reconciling the bank accounts.

- *Note 17 to the financial statements – estimation in classification of fixed assets*

Note 17 to the financial statements read as follows:

In view of completion of the Hotel in stages, the allocation and classification of Pre-Operative expenditure and fixed assets will undergo certain changes upon the final completion of the projects in full. Hence, the allocation/clarification made in the present accounts is based on approximations.

Year ended 31 March 2003

- *Note 11 to the financial statements – reconciliations with sundry parties*

Note 11 to the financial statements read as follows:

Confirmation/reconciliations is pending from sundry parties

- *Note 14 to the financial statements – acquisition of Hotel Harsha's operations*

Note 14 to the financial statements read as follows:

In accordance with the agreement entered into between Royal Orchid Hotels Limited and Hotel Harsha, the entire business of Hotel Harsha has been taken over by Royal Orchid Hotels Limited with effect from 1 July 2002 on an ongoing basis. Due to the above, all the transactions for the period relating to sales and services, expenditure incurred along with all the sundry creditors and sundry debtors and direct liabilities and assets relating to the above are combined along with the respective accounts in the books of Royal Orchid Hotels Limited and duly incorporated. Further, all licenses, sales tax registrations and other statutory requirements are in the process of transfer. However, no fixed assets and other movable assets have been taken over by Royal Orchid Hotels Limited.

- *Note 17 to the financial statements – reconciliation of capital creditors*

Note 17 to the financial statements reads as follows:

Further work on the project was still in progress as at 31 March 2003 and hence reconciliation of parties accounts are not made. Any adjustments arising at the time of the settlement will be accounted for on final closure of the contract/project.

Since the effect of these qualifications have not been quantified, it has not been possible to adjust the differences in the 'Unconsolidated Statement of Assets and Liabilities, as Restated' and the 'Unconsolidated Statement of Profits and Losses, as Restated.'

2. Adjustments resulting from changes in accounting policies

a. Depreciation

For and upto the year ended 31 March 2003, the Company provided for depreciation on fixed assets on a straight line basis at the rates specified in Schedule XIV to the Companies Act, 1956. Effective 1 April 2003, the Company changed the method of providing for depreciation from the straight-line basis to the written down value basis at the rates prescribed in Schedule XIV. The Company changed this method back to the straight line basis effective 1 April 2004 as management was of the view that the use of the straight line method would better reflect the pattern of usage of these assets in the financial statements.

Further, effective 1 April 2004, the Company fully depreciated assets costing individually less than Rs. 5,000 in the year of purchase, as against the depreciation rate applicable to the respective asset categories.

Accordingly the depreciation for the five years ended 31 March 2005 has been charged based on the straight line basis and assets individually costing less than Rs 5,000 have been depreciated fully in the year of purchase with the impact for each of the years presented being adjusted in the respective years in the 'Unconsolidated Statement of Assets and Liabilities, as Restated' and the 'Unconsolidated Statement of Profits and Losses, as Restated.'

b. Deferred taxation

The Company adopted the provisions of AS 22 – *Accounting for taxes on Income*, issued by the ICAI for the first time for the accounting period commencing effective 1 April 2002.

In accordance with the provisions of AS - 22, in the absence of virtual certainty of realisation of the carry forward losses, the Company did not recognise any deferred tax asset for the accumulated losses as at 31 March 2003. Further, as at 31 March 2004, the Company charged the net deferred tax liability on the first time adoption of the standard, aggregating Rs 6.5 million to the profit and loss account for the year then ended.

As the Company has been able to completely utilise the accumulated losses as of March 31, 2005, for the preparation of these restated summary financial statements, the deferred tax asset/liability, including the effect of the carry forward losses has been recorded in the year of origination with a corresponding effect in the 'Summary Statement of Profit and Loss, as restated' and 'Summary Statement of Assets and Liabilities, as Restated.'

3. Adjustments relating to previous years

a. Prior period expenses

During the year ended 31 March 2005, the Company recorded prior period expenses being errors and/or omission for periods prior to this year. Accordingly the effect of these prior period amounts has been charged in the relevant period in the 'Summary Statement of Profits and Losses, as Restated', with a corresponding credit to the current years' summary statements.

b. Accounting for gratuity

Prior to accounting periods commencing 1 April 2004, the Company provided for gratuity payable to employees at Royal Orchid Hotel based on management's estimate and did not provide for gratuity for employees at the Harsha Hotel. Effective 1 April 2004, the Company has begun accounting for gratuity based on an actuarial valuation by an independent actuary as at the balance sheet date.

Accordingly, for the preparation of these Unconsolidated financial statements, the Company has recorded the gratuity provision in the year to which the liability pertains, based on an independent actuarial valuation on the balance sheet date, in the 'Unconsolidated Statement of Assets and Liability,

as Restated' with a corresponding charge to the 'Unconsolidated Statement of Profit and Loss, as Restated'.

c. Write back of excess provisions pertaining to prior years

During the year ended 31 March 2005, the Company has written back to the profit and loss account provisions and accruals made on estimates which had been provided for in earlier years but are no longer considered payable. Accordingly, the effect of these write backs has been considered in the respective years in which these accruals were originally recorded with a corresponding reduction in the expenses in the 'Unconsolidated Statement of Profit and Loss, as Restated'.

4. Other material adjustments

a. Property taxes

During the year ended 31 March 2004, the Company received property tax demands from the local municipal bodies pertaining to the period 2000 to 2003. The Company accounted for this tax demand based on an internal assessment of potential exposure covering period upto the year ended 31 March 2004 in the financial statements for the year ended 31 March 2005. Accordingly, for the purpose of this statement, property tax expenditure pertaining to each of the years prior to the year ending March 31, 2005 has been recorded, in the respective years of the 'Unconsolidated Statement of Profits and Losses, as Restated'.

Further, in October 2005 the Company received a final notice of its property tax liability for the period upto March 31, 2005 as a result of the completion of the assessment of the Company's liability by the local municipal bodies which was used to determine the final liability on this account. Upon receipt of this notice, the Company has rectified the total property tax expenditure pertaining to each of the years in the respective years of the 'Unconsolidated Statement of Profits and Losses, as Restated'.

b. Employee state insurance dues

In 2005, the Company received a show cause notice from the Employees State Insurance Corporation for short payments of contributions at the Royal Orchid Hotel pertaining to the years ending 31 March 2002 and 2003. The Company provided for this amount in the financial statements for the year ended 31 March 2005. Accordingly, the effect of this amount has been adjusted to the period to which it pertains through charge to the 'Unconsolidated Statement of Profit and Loss, as Restated'.

5. Material reclassifications

a. Security deposit for the right to use land

In 1992, the Company has entered into an agreement with its Managing Director for the payment of a refundable security deposit of Rs 60,000,000 for the right to use his share of the land on which the Royal Orchid Hotel has been constructed. This amount was erroneously classified as Land in the schedule of fixed assets until the year ended 31 March 2004. During the year ended 31 March 2005, this amount has been reclassified as a security deposit under Loans and Advances. Consequently, this amount has been reclassified for all the periods presented in the 'Summary Statement of Assets and Liabilities, as Restated.'

6. Material changes in activities

a. Consolidation of the results of operations of Royal Orchid Harsha

In accordance with terms of the agreement between the Company, Hotel Stay Longer Private Limited and Baljee Hotels and Real Estate Private Limited, the Company has acquired the operations of Royal Orchid Harsha with effect from 1 July 2002 as a going concern. Consequently the audited financial statements for the year ended 31 March 2003 include the income and expenses of this hotel with effect from 1 July 2002 and also the sundry debtors and creditors as at that date. The financial statements of the Company for the year ended March 31, 2003 therefore included Rs 30.4 million of revenues and

Rs 2.3 million of net profit pertaining to the operations of Royal Orchid Harsha for that period. Subsequent financial statements of the Company include the operations of Hotel Harsha for the complete reporting years.

7. SECURED LOANS

		30 June 2005	31 March 2005	31 March 2004
Term loans from banks	(a)	192.16	192.16	208.00
Vehicle loans	(b)	4.16	4.47	0.47
Interest accrued and due on term loans			1.34	-
		196.32	197.97	208.47

Notes:

- a) During the year ended 31 March 2004, the Company availed a term loan facility of Rs 250 million from the Housing and Urban Development Corporation of India ('HUDCO') for the expansion activities of the Company that carried an interest rate of 11.25 per cent per annum which was subsequently revised to 9.75 per cent per annum. Of the above, the Company availed Rs 208 million with the balance facility remaining unutilised. This loan was repayable in 36 quarterly instalments of Rs 6.9 million each ending in June 2013 and was secured against the land and buildings of Royal Orchid Hotel and Royal Orchid Harsha with an escrow over the collections from sales settled through credit cards at both hotels.

Additionally, this borrowing was backed by the personal guarantees of Mr. Chander K Baljee, the Managing Director of the Company and Mrs. Sunita Baljee, Director of the Company and a corporate guarantee from Baljee Hotels and Real Estate Private Limited, a company under the same management.

On 16 December 2004, the Company was sanctioned a term loan from the State bank of Hyderabad ('the Bank') for Rs 300 million. The Company drew down Rs 192 Million of which Rs 154 million was utilised towards the repayment of the loan outstanding from HUDCO with the balance of Rs. 38 million being utilised for the purposes of the expansion by the Company. This loan carries an interest rate of 3 per cent below the Prime Lending Rate ('PLR') of the Bank subject to a maximum of 9.75 per cent per annum. This loan is secured by way of an equitable mortgage of the land and building of the Royal Orchid Hotel and a first charge on the present and future fixed assets of the Company.

Additionally, this borrowing has also been backed by the personal guarantees of the Mr. Chander K. Baljee, the Managing Director and Mrs. Sunita Baljee, Director of the Company and a corporate guarantee from Baljee Hotels and Real Estate Private Limited. This loan is repayable in 24 quarterly installments of Rs. 12.5 million each, commencing from 31 December 2005.

The Company also has an overdraft facility with the State Bank of Hyderabad that has a limit of Rs. 10 million. This facility carries an interest rate equal to the PLR of the Bank and is secured by the hypothecation of the present and future inventory and receivables of the Company and an extension of the charge on all the fixed assets of the Company in addition to personal guarantees of the Mr. Chander K. Baljee, Mrs. Sunita Baljee, and a corporate guarantee from Baljee Hotels and Real Estate Private Limited, The Company has not utilised this facility as at 31 March 2005.

- b) Other loans represent loans taken to purchase vehicles that are secured by the hypothecation of the vehicles concerned these loans carry interest rates varying between 6.00% and 8.50% per annum and are repayable through 2009.

Amounts due in one year as at June 30, 2005 are as follows:

Term loans	37.50
Other loans	1.22
	38.72

8. UNSECURED LOANS

	30 June 2005	31 March 2005	31 March 2004
From others	1.28	1.28	7.00
	1.28	1.28	7.00

Note:

The amount outstanding as of 30 June 2005 represents amounts borrowed from a company under the same management. This loan is interest free and repayable on demand.

9. SUNDRY DEBTORS

	30 June 2005	31 March 2005	31 March 2004
(Unsecured)			
Debts outstanding for a period exceeding six months:			
- Considered good		0.95	1.70
- Considered doubtful	1.03	0.69	1.80
Other debts			
- Considered good	26.60	19.00	13.80
- Considered Doubtful	0.15		
	26.75	19.00	13.80
Less: Provision for doubtful debts	(1.18)	(0.69)	(1.8)
	26.60	19.95	15.50

10. LOANS AND ADVANCES

		30 June 2005	31 March 2005	31 March 2004
(Unsecured, considered good)				
Advances recoverable in cash or in kind or for value to be received				
Security deposits	(a)	78.12	78.25	74.41
Prepaid Expenses		3.50	5.85	1.25
Advances to suppliers		0.36	3.12	0.88
Due from related parties	(b)	9.64	8.69	7.10
Due from subsidiary		6.27	3.65	7.25
Advance tax (net of provision)		1.46	5.10	-
Interest Accrued			0.08	0.60
Others		1.80	0.61	0.25
		101.15	105.35	91.74

Note:

- a) Security deposits includes Rs 60 million being a interest-free, refundable security deposit with the Managing Director for his 50 per cent interest in the land taken on lease from the Karnataka State Tourism Development Corporation for the Royal Orchid Hotel. This deposit is repayable to the expiration of the lease agreement with the Karnataka State Tourism Development Corporation.

Security deposits also include Rs 10 million being an interest free, refundable lease deposit with companies under the same management for the buildings and assets at Royal Orchid Harsha. This amount is repayable on the termination of the lease.

- b) Dues from related parties represent amounts dues from companies under the same management and dues from directors.

11. OTHER INCOME

	Quarter ended June 30	Year ended 31 March				
	2005	2005	2004	2003	2002	2001
Other Income, as restated	2.75	14.12	14.16	5.87	0.55	0.02
Net Profit / (loss) before tax, as restated	51.21	169.67	58.33	4.50	(29.92)	(3.72)
%	5.37	8.32	24.27	130.44	(1.83)	(0.53)
Sources of income						
Management fee	2.41	9.44	5.26	1.20	-	-
Interest income	.18	2.03	0.68	0.35	0.55	0.02
Interest subsidy	-	-	6.97	3.18	-	-
Sundry creditors written back	-	1.16	-	-	-	-
Miscellaneous income	.16	1.49	1.25	1.14	-	-
	2.75	14.12	14.16	5.87	0.55	0.02

Computation of Net profit before tax as restated

	30 June 2005	31 March 2005	31 March 2004	31 March 2003	31 March 2002	31 March 2001
Net profit as restated	39.60	115.30	35.16	2.38	(18.67)	(1.37)
Current tax expense for the period/year	12.41	37.00	2.50	0.20	-	-
Deferred tax expense for the period/year	(0.80)	19.40	6.50	-	-	-
Deferred tax related restatement adjustment	-	(2.03)	14.17	1.92	(11.25)	(2.35)
Net profit/ before tax as restated	51.21	169.67	58.33	4.50	(29.92)	(3.72)

12. Leases

Operating leases

The key operating lease arrangements entered into by the Company are summarised below:

Hotel Royal Orchid

The Company has entered into various non-cancellable tri-partite agreements along with its Managing Director and the Karnataka State Tourism Development Corporation ('KSTDC') to lease lands on which the hotel premises has been constructed and adjacent areas. The primary lease periods for these agreements is 30 years and are further extendable by a period between 10 to 30 years at the option of the Company and carry an escalation provision for the increase in annual rent by 15 per cent every 10 years thereafter.

Additionally, the Company has also entered into an agreement with its managing director for the use of his 50 percent interest in the leased lands with the value of this consideration being determined at Rs. 60 million, payable as an interest free security deposit repayable on the termination of the lease with KSTDC. This consideration could be discharged either in cash or through the issue of equity shares of the Company. The Company discharged this consideration through the allotment of 6 million equity shares at par through July 1999.

Royal Orchid Harsha

Effective July 2002, the Company entered into a tri-partite agreement with Hotel Stay Longer Private Limited and Baljee Hotels and Real Estates Private Limited, Companies under the same management,

to lease the hotel premises and related assets at Royal Orchid Harsha for a fixed monthly rental payment. This agreement was for an initial period of 11 months, renewable at the option of the Company and it has deposited an interest-free security deposit of Rs. 10 million with Baljee Hotels and Real Estate Private Limited which is repayable on the termination of the lease agreement.

Metropole

In May 2004, the Company entered into a lease agreement with Jungle Lodges and Resorts Limited ('JLR'), a Government of Karnataka Undertaking for the use of the land and building representing Hotel Metropole at Mysore for a non-cancellable period of 15 years. As a consideration, the Company is required to pay an annual amount comprising a fixed charge per annum and a revenue share representing 10% of the annual revenues in excess of Rs. 25 million. As the commercial operations commenced only in October 2004, no revenue share charge has been recorded during the year ended 31 March 2005. As a part of this consideration, the Company has also issued a bank guarantee of Rs 6 million to the lessor for the period of the lease.

The lease expense for cancellable and non-cancellable operating leases during the quarter ended 30 June 2005 and the years ended 31 March 2005, 2004, 2003 and 2002 was Rs 2.5 million, Rs. 9.6 million, Rs 1.08 million, Rs. 0.80 million and Rs 0.54 million respectively

The details of lease commitments in terms of minimum lease payments as at June 30, 2005 are as follows:

Payments falling due:	Amount
Within 1 year	8.60
Later than one year but not later than five years	32.96
Later than 5 years but not later than fifteen years	138.21
TOTAL	179.77

13. Commitments and contingencies

a) Litigation

The Company has been named as a defendant in two civil suits filed restraining the Company from using certain parts of land taken on lease from the KSTDC for the operation of the Royal Orchid Hotel, which are adjacent to the hotel premises. Consequently, these lands are currently not being utilised by the Company. These cases are pending with the Civil Courts and scheduled for hearings shortly. Management believes that these cases will be settled in its favour and will not adversely effect its operations.

b) Other commitments and contingencies

Particulars	As at June 30	As at March 31				
	2005	2005	2004	2003	2002	2001
Claims against the Company not acknowledged as debts	3.9	15.4	NQ	-	-	-
Counter guarantees given to bankers	-	-	4.3	-	-	NQ
Capital Commitments	2.0	2.0	-	-	20.0	69.0
Export obligation	83.49*	68.8*	NQ	NQ	NQ	NQ
TOTAL	89.39	86.2	4.3	-	20.0	69.0

NQ – Not quantified in the audited financial statements

** the exports of the Company exceed this obligation at March 31, 2005*

14. Related party transactions

i. Parties where control exists

Parties where control exists include

Name of party	Nature of relationship
Icon Hospitality Private Limited	Subsidiary
Chander K. Baljee	Key management personnel
Sunita Baljee	Key management personnel
Presidency Caterers	Entity controlled by Directors
Harsha Farms Private Limited	Entity controlled by Directors
Baljee Hotels and Real Estate Private Limited	Entity controlled by Directors
Hotel Staylonger Private Limited	Entity controlled by Directors
Presidency College of Hotel Management	Entity controlled by Directors

ii. *Transactions with related parties*

Parties with whom transactions have taken place during the year include:

Name of party	Nature of relationship
Icon Hospitality Private Limited	Subsidiary
Chander K. Baljee	Key management personnel
Sunita Baljee	Key management personnel
Presidency Caterers	Entity controlled by Directors
Harsha Farms Private Limited	Entity controlled by Directors
Baljee Hotels and Real Estate Private Limited	Entity controlled by Directors
Hotel Staylonger Private Limited	Entity controlled by Directors
Presidency College of Hotel Management	Entity controlled by Directors
Arjun Baljee	Relative of Key Management Personnel

The transactions with related parties during the quarter ended 30 June 2005 is summarised below:

Nature of transaction	Subsidiary	Associates	Key Management Personnel	Relatives of key management personnel	TOTAL
Management Service fee received	2.4				2.4
General and administrative expenses incurred on behalf of related parties charged to related parties		1.01			1.01
Lease rent charges paid		0.18			0.18
Payments received on behalf of related parties		3.19			3.19
Payments made on behalf of related parties		0.37			0.37
Purchases made on behalf of associates charged to associates		0.87			0.87
Remuneration			0.89	0.06	0.95

The transactions with related parties during the year ended 31 March 2005 is summarised below:

Nature of transaction	Subsidiary	Associates	Key Management Personnel	Relatives of key management personnel	TOTAL
------------------------------	-------------------	-------------------	---------------------------------	--	--------------

Management Service fee received	9.4	-	-	-	9.4
Purchase of raw materials	0.1	-	-	-	0.1
General and administrative expenses incurred on behalf of related parties charged to related parties	2.0	3.3	-	-	5.3
General and administrative expenses incurred by related parties charged to the Company	1.2	0.1	-	-	1.3
Short term loan from subsidiary company	30.0	-	-	-	30.0
Repayment of short-term loan from subsidiary	30.0	-	-	-	30.0
Lease rent charges paid	-	1.1	-	-	1.1
Payments received on behalf of related parties	-	8.0	-	-	8.0
Payments made on behalf of related parties	-	3.6	-	-	3.6
Purchases made on behalf of associates charged to associates	-	2.9	-	-	2.9
Remuneration	-	-	3.3	0.2	3.5

The transactions with related parties during the year ended 31 March 2004 is summarised below:

	Subsidiary	Associates	Key Management Personnel	Relatives of key management personnel	TOTAL
Management Service fee received	5.3	-	-	-	5.3
General and administrative expenses incurred on behalf of related parties charged to related parties	0.7	3.1	-	-	3.8
General and administrative expenses incurred by related parties charged to the Company	0.7	1.3	-	-	2.0
Lease rent charges paid	-	1.1	-	-	1.1
Payments received on behalf of related parties	-	5.4	-	-	5.4
Payments made on behalf of related parties	-	4.1	-	-	4.1
Purchases made on behalf of associates charged to associates	-	2.7	-	-	2.7
Remuneration	-	-	3.4	0.2	3.7

The transactions with related parties during the year ended 31 March 2003 is summarised below:

	Associates	Key Management Personnel	Relatives of key management personnel	TOTAL
Lease rent charges paid	0.8	-	-	0.8

Management service fees received	1.2	-	-	1.2
Remuneration	-	1.0	-	1.0

The transactions with related parties during the year ended 31 March 2002 is summarised below:

	Associates	Key Management Personnel	Relatives of key management personnel	TOTAL
Lease rent charges	0.54	-	-	0.54
Security deposit given to associate	10.00	-	-	10.00
Investment in associate	3.20	-	-	3.20

Other transactions

- c) As discussed in Note 7, the borrowing from HUDCO was backed by the personal guarantees of Mr. Chander K Baljee, the Managing Director of the Company and Mrs. Sunita Baljee, Director of the Company and a corporate guarantee from Baljee Hotels and Real Estate Private Limited.
- d) The Company has also entered into an arrangement with Presidency College of Hotel Management (an associate) whereby the associate is provide the use of a part of the Royal Orchid Hotel premises rent free, in consideration of a refundable security deposit of Rs 2.5 million.

Balances receivable/ (payable) from/to related parties is summarised below:

	As at June 30	As at 31 March			
	2005	2005	2004	2003	2002
Dues from Subsidiary	6.16	3.6	7.3	-	-
Dues from associates	8.46	8.7	7.1	-	-
Security deposit given to associate	10.0	10.0	10.0	10.0	-
Dues from Directors	1.18				
Due to Directors	2.34				
Unsecured loan from associate	1.3	1.3	1.3	1.8	1.3
Investment in subsidiary/associate	3.5	3.5	3.5	3.2	-
Security deposit to key management personnel	60.0	60.0	60.0	60.0	60.0o
Security deposit from associate	2.5	2.5	2.5	2.2	2.38

15. Segmental Information

The Company's business comprises the operation of hotels, the services of which represent one business segment as they are subject to risks and returns that are similar to each other. Further the Company derives its entire revenues from services rendered in India. Consequently, the disclosure of business and geographic segment - wise information is not applicable to the Company.

ANNEXURE 5 – STATEMENT OF CASH FLOWS, AS RESTATED

(All amounts in Rupees millions)

	Quarter ended June 30 2005	Year ended 31 March				
		2005	2004	2003	2002	2001
A. Cash flow from operating activities						
Net profit/(loss) before taxation, as restated (Refer Note 11, Annexure 4)	51.21	169.67	58.33	4.50	(29.92)	(3.72)
Adjustments for:						
Depreciation	3.67	20.31	10.72	9.43	9.60	1.46
Investments written off	0.04	0.09	-	-	-	-
Loss on sale of fixed assets		0.07	-	-	-	-
Advances written off	1.09					
Preliminary expenses written off		0.09	0.01	0.01	0.01	
Interest income	(.19)	(1.95)	(0.68)	(0.35)	(0.55)	(0.02)
Finance charges	3.82	24.42	29.43	36.31	27.74	0.01
Provision for Doubtful debts	.49	0.69	1.82	-	-	-
Bad debts written off		1.49	-	-	-	-
Operating profit before working capital changes	60.13	214.88	99.63	49.90	6.88	(2.27)
Movements in working capital :						
(Increase) in sundry debtors	(7.14)	(6.64)	(4.43)	(6.93)	(5.78)	(0.18)
(Increase) in inventories	(1.86)	(1.13)	(0.23)	1.16	(4.21)	0.03
Increase/decrease in bank deposits and margin monies	(3.37)	16.24	(33.97)	(1.71)	0.60	(1.85)
(increase)/decrease in unbilled revenue	(1.67)	0.71	(2.21)	(0.42)	(0.21)	
(Increase) loans and advances	(2.63)	(19.03)	(11.53)	(15.98)	(0.04)	(3.63)
(Decrease) in current liabilities and provisions	0.52	(8.16)	13.52	22.51	14.57	7.53
Cash generated from operations	43.98	196.87	60.78	48.53	11.83	(0.37)
Direct taxes paid (net of refunds)	(6.50)	(31.50)	-	-	-	-
Net cash from operating activities	37.48	165.37	60.78	48.53	11.83	(0.37)
B. Cash flows from investing activities						
Purchase of fixed assets and increase in Capital Work In Progress and preoperative expenditure	(24.24)	(117.64)	(32.98)	(19.73)	(52.12)	(97.06)
Proceeds from the sale of fixed assets		0.10	-	-	-	-
Purchase of investments		0.00	(3.50)	0.00	(0.03)	(0.08)
Interest received	(0.02)	1.95	0.68	0.35	0.55	0.02
Net cash (used in) investing activities	(24.22)	(115.59)	(35.80)	(19.38)	(51.60)	(97.12)
C. Cash flows from financing activities						
Proceeds from long-term borrowings		196.58	200.94	14.17	31.80	129.62
Repayment of long-term borrowings	(1.65)	(208.15)	(186.56)	(2.96)	(0.05)	-
Proceeds from short term borrowings		30.00	-	-	-	-
Repayment from short term borrowings		(30.00)	-	-	-	-
Interest and finance charges paid	(3.82)	(24.42)	(29.43)	(36.31)	(27.74)	(0.01)
Net cash used in financing activities	(5.47)	(34.99)	(15.05)	(25.10)	4.03	129.61
Net increase in cash and cash equivalents (A + B + C)	7.79	14.79	9.93	4.05	(35.76)	32.12
Cash and cash equivalents at the beginning of the year	29.86	15.07	5.14	1.09	36.85	4.73
Cash and cash equivalents at the end of the year	37.65	29.86	15.07	5.14	1.09	36.85

Note:

The Group considers all highly liquid investments with a remaining maturity, at the date of purchase/ investment, of three months or less to be cash equivalents.

Components of cash and cash equivalents as at	As at June 30	As at March 31				
	2005	2005	2004	2003	2002	2001
Cash and bank balances	62.29	51.13	52.28	8.68	2.92	39.27
Less: Bank deposits and margin monies considered separately	24.64	21.27	37.21	3.54	1.83	2.42

	37.65	29.86	15.07	5.14	1.09	36.85
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ANNEXURE 6 – STATEMENT OF ACCOUNTING RATIOS

Particulars	Quarter ended June 30	Year Ended March 31,				
	2005	2005	2004	2003	2002	2001
Earnings/(Loss) per share (Rs.)	2.16	6.30	1.93	0.13	(1.02)	(0.08)
Net Asset value per share (Rs.)	14.92	12.76	6.16	4.24	4.11	5.13
Return on Net Worth (%)	14.50	49.36	31.27	3.08	(24.93)	(1.46)
Weighted average number of equity shares in the period (in Nos.)	18,302,546	18,302,546	18,246,140	18,246,140	18,246,140	18,246,140

Note:

1. These ratios have been computed as follows:

$$\text{a) Earnings/(loss) per share(Rs.)} = \frac{\text{Net profit/(loss) attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the period}}$$

$$\text{b) Net Asset Value per share (Rs.)} = \frac{\text{Net Worth excluding revaluation reserve at the end of the period/year}}{\text{Weighted average number of equity shares outstanding during the period}}$$

$$\text{c) Return/(loss) on Net Worth (%) = } \frac{\text{Net profit/(loss) attributable to equity shareholders}}{\text{Net Worth excluding revaluation reserve at the end of the period/year}}$$

- Net profit/(loss) and Net worth as appearing in the 'Summary statement of Profit & Loss, as Restated' and the 'Summary Statement of Assets and Liabilities', as Restated 'has been used for the computation of these ratios.
- Earnings per share have been computed in accordance with Accounting Standard 20 issued by the Institute of Chartered Accountants of India.
- In the Annual General Meeting held on September 28, 2005, the members of the Company approved the issue of one bonus share for every equity share held on that date. Therefore, the weighted average number of shares and the Earnings/(loss) per share reflect the effect of this bonus issue for all the periods presented.

ANNEXURE 7 – STATEMENT OF TAX SHELTERS

(Amounts in Rupees millions)

Particulars	Quarter ended 30 June	Year Ended 31 March				
	2005	2005	2004	2003	2002	2001
Profit/(loss) before tax as per Summary Statement of Profits and Loss, as Restated (refer Note 11, Annexure 4)	51.21	169.67	58.33	4.50	(29.92)	(3.72)
Tax charge/(credit) on above (A)	17.24	62.08	20.92	1.65	(10.68)	(1.43)
Adjustments:						
Tax deduction available to a new industrial undertakings	(14.85)	(34.49)	-	-	-	-
Timing differences reversing during the tax holiday period	0.36	12.86	5.46	(2.99)	(2.73)	(3.56)
Deduction under Section 80 HHD			(1.32)			
Tax rate change	(6.48)	-	-	-	-	-
Other permanent differences	4.25	(0.97)	2.09	4.23	1.11	1.17
Net Adjustments	(16.72)	(22.60)	6.23	1.24	(1.62)	(2.38)
Tax (saving)/charge thereon (B)	(5.63)	(8.27)	2.23	0.46	(0.58)	(0.92)
Total tax charge derived above (A+B)	11.61	53.81	23.16	2.11	(11.26)	(2.35)
Tax on profits as per Summary Statements of Profits and Losses, as restated	11.61	53.81	23.16	2.11	(11.26)	(2.35)

ANNEXURE 8 – CAPITALISATION STATEMENT

(Amounts in Rupees millions)

PARTICULARS		Pre-Issue as at June 30, 2005	Pre-Issue as at March 31, 2005	Post Issue*
Borrowings :				
Short-term Debt	(a)	40.00	28.58	
Long-term Debt		157.60	170.67	
Total Debt		197.60	199.25	
Shareholders' funds:				
Share Capital		96.95	96.95	
Reserves		176.20	136.62	
Total Shareholders' Funds		273.15	233.57	
Total Capitalization		470.75	432.82	
Long-term Debt/Equity ratio	(b)	0.58	0.73	
Total Debt/Equity ratio	(c)	0.72	0.86	

* Share Capital and reserves and total shareholders' Funds post issue will be calculated on the conclusion of the Book Building process

Note:

- b) Short-term Debts are debts maturing within the next one year from the date of above statement and interest accrued and due on loans.
- c) Total long term debt/Total shareholders funds
- d) Total debt/Total shareholders funds

FINANCIAL INFORMATION OF SUBSIDIARY COMPANIES

ICON HOSPITALITY PRIVATE LIMITED – UNCONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES AND PROFITS AND LOSSES, AS RESTATED, FOR THE QUARTER ENDED 30 JUNE, 2005 AND YEARS ENDED 31 MARCH, 2004 AND 2005

Auditors' report as required by Part II of Schedule II of the Companies Act, 1956

The Board of Directors,
Royal Orchid Hotels Limited
C/o Harsha Hotel
No. 11 Park Road
Bangalore - 560 051
India

Dear Sirs

11. At your request, we have examined the annexed financial information of Icon Hospitality Private Limited ('the Company') for the quarter ended 30 June 2005 and two financial years ended 31 March 2005, including the notes thereon being the last date to which the accounts of the Company have been made up. This financial information has been prepared by management and approved by the Board of Directors of Royal Orchid Hotels Limited for the purpose of disclosure in the Offer Document being issued by Royal Orchid Hotels Limited in connection with the Initial Public Offering ('IPO') for the issue of 6,820,000 of its equity shares having a face value of Rs.10 each at an issue price to be arrived at by a book building process. (referred to as 'the Issue').
12. This financial information has been prepared in accordance with the requirements of
 - iii) Paragraph B (1) of Part II of Schedule II to the Companies Act, 1956 ('the Act');
 - iv) The Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 ('the SEBI Guidelines') issued by the Securities and Exchange Board of India ('SEBI') on 19 January 2000 in pursuance to Section 11 of the Securities and Exchange Board of India Act, 1992 and related amendments;
 - v) The Guidance Note on the Reports in Company Prospectuses and the Guidance Note on Audit Reports/Certificates on Financial Information in Offer document issued by the Institute of Chartered Accountants of India ('ICAI'); and
 - vi) Our terms of reference with Royal Orchid Hotels Limited dated 18 April 2005, requesting us to carry out work, proposed to be included in the Offer document of the Company as aforesaid.

C) Financial information as per the audited financial statements

1. We report that the Unconsolidated Statement of Assets and Liabilities, as Restated, of the Company as at 30 June 2005 and 31 March 2005 and 2004 and are as set out in Annexure 1 to this report after making such adjustments/restatements and regrouping as in our opinion are appropriate and are to be read in accordance with the Significant Accounting Policies as appearing in Annexure 3 and Notes to the Unconsolidated Statement appearing in Annexure 4 to this report.
2. We report that the Unconsolidated Statement of Profits and Losses, as restated of the Company for the quarter ended 30 June 2005 and years ended 31 March 2005 and 2004 are as set out in Annexure 2 to this report. These profits and losses have been arrived at after charging all expenses including depreciation and after making such adjustments/restatements and regroupings as in our opinion are appropriate and are to be read in accordance with the Significant Accounting Policies

as appearing in Annexure 3 and Notes to the Unconsolidated Statement appearing in Annexure 4 to this report.

3. The Unconsolidated Statement of Assets and Liabilities and Profits and Losses, as Restated, for the quarter ended 30 June 2005 and years ended 31 March 2005 and 2004 are based on the financial statements for the respective period/years. The financial statements of the Company for the year ended 31 March 2004 have been audited and reported upon by M/s R Subramanian and Co. and are as adopted by the members of the Company. We have relied on these audited financial statements. We have not carried out any audit tests or review procedures on the financial statements of the Company for the year ended 31 March 2004 since we did not perform the audit. The financial statements for the quarter ended 30 June, 2005 and the year ended 31 March 2005 have been audited by us.
4. Based on our examination of these Unconsolidated Statement of Assets and Liabilities and Profits and Losses, as Restated, we confirm that:
 - The Unconsolidated Statement of Assets and Liabilities and Profits and Losses, as Restated, of the Company have been restated with retrospective effect to reflect the significant accounting policies as adopted by the Company;
 - The prior period items which need to be adjusted in Unconsolidated Statement of Assets and Liabilities and Profits and Losses, as Restated have been adjusted in the period to which they relate;
 - *The Auditors in their report on the financial statements of the Company for the quarter ended 30 June, 2005 and year ended 31 March 2005 had included certain qualifications (reproduced in Note 1 of the Notes to the Unconsolidated Statement), for which, in the absence of any quantification, no adjustments have been made in the Unconsolidated Statement of Assets and Liabilities and Profits and Losses, as Restated; and*
 - There are no extra-ordinary items which need to be disclosed separately in the Unconsolidated Statement of Assets and Liabilities and Profits and Losses, as Restated.

D) Other Financial Information

5. We have examined the Unconsolidated Statement of Cash Flow, as Restated, for the Quarter ended 30 June 2005 and the years ended 31 March 2005 and 2004 proposed to be included in the Offer Document, as approved by you appearing in Annexure 5 to this report.
6. The Unconsolidated Statement of Cash Flow, as Restated, is based on the financial statements for the respective period/years. The financial statements of the Company for the year ended 31 March 2004 have been audited and reported upon by M/s R Subramanian and Co. and are as adopted by the members of the Company. We have relied on these audited financial statements. We have not carried out any audit tests or review procedures on the financial statements of the Company for the year ended 31 March 2004 since we did not perform the audit. The financial statements for the quarter ended 30 June, 2005 and the year ended 31 March 2005 have been audited by us.
7. *Subject to our comments above*, in our opinion the Unconsolidated Statement of Cash Flow, as Restated, for the Quarter ended 30 June 2005 and the years ended 31 March 2005 and 2004 have been prepared in accordance with Part II of Schedule II of the Act and the SEBI Guidelines.
8. The sufficiency of the procedures, as set forth in the above paragraphs, is the sole responsibility of the Company. We make no representation regarding the sufficiency of the procedures described above either for the purposes for which this report has been requested or for any other purpose.

9. This report should not be in any way construed as a re-issuance or re-dating of any of the previous audit reports issued by us or by any other firm of Chartered Accountants nor should it be construed as a new opinion on any of the financial statements referred to therein.
10. This report is intended solely for your information and for inclusion in the Offer Document in connection with the specific Public Offer of the Company and is not to be used, referred to or distributed for any other purpose without our prior written consent..

For Walker, Chandiok & Co
Chartered Accountants

Vinod Chandiok
Partner
Membership No. 10093

New Delhi
October 22, 2005

**ANNEXURE 1 – UNCONSOLIDATE STATEMENT OF ASSETS AND LIABILITIES, AS
RESTATED**

(Amounts in Rupees millions)

Particulars		June 30	March 31	
		2005	2005	2004
A.	Fixed Assets			
	Gross block	37.37	35.61	9.99
	Less: Accumulated Depreciation	3.00	2.43	0.42
	Net Block	34.37	33.18	9.57
	Capital Work in Progress	12.80	1.93	-
	Net Block	47.17	35.11	9.57
C.	Current Assets, Loans and Advances			
	Inventories	0.91	0.99	0.61
	Sundry Debtors	11.30	8.17	6.63
	Unbilled Revenues	1.70	1.41	1.57
	Cash and Bank Balances	16.67	17.68	22.08
	Loans and Advances	17.45	19.62	8.05
		48.03	47.87	38.94
D.	Liabilities and Provisions:			
	Secured Loans	5.47	5.82	6.74
	Current Liabilities and Provisions	28.71	24.56	18.68
	Deferred Tax Liability, net	0.60	0.60	0.07
		34.78	30.98	25.49
E.	Net Worth	60.42	52.00	23.02
F.	Represented by			
	Share Capital	6.00	6.00	6.00
	Reserves	54.42	46.00	17.02
G.	Net Worth	60.42	52.00	23.02

To be read together with the notes forming part of the Unconsolidated Statement attached.

**ANNEXURE 2 - UNCONSOLIDATED STATEMENT OF PROFITS AND LOSSES, AS
RESTATED**

(Amounts in Rupees millions)

Particulars	3 months ended	Year ended March 31,	
	June 30, 2005	2005	2004
Sales:			
Room revenues	42.56	147.39	87.55
Food and beverages	9.04	29.28	26.44
Other service charges	1.17	5.32	5.95
Other income	0.25	2.54	0.87
Total Income	53.02	184.53	120.81
Expenditure			
Food and beverages consumed	2.71	9.75	10.05
Employee costs	4.62	14.92	11.69
Operating expenses	23.25	82.54	56.34
General and administration expenses	9.42	28.90	18.16
Total Expenditure	40.00	136.11	96.24
Earning Before Depreciation, Interest & Tax	13.02	48.42	24.57
Depreciation	0.57	2.01	0.42
Interest	0.08	0.40	0.18
Profit before tax and prior period items	12.37	46.01	23.97
Prior period items	-	(0.17)	-
Net Profit before tax	12.37	45.84	23.97
Taxation			
Current tax	(3.95)	(16.50)	(9.00)
Deferred tax	-	(0.60)	-
Provision no longer required written back	-	0.83	-
Net profit before adjustments	8.42	29.57	14.97
Adjustments			
Increase/(decrease) in net profits			
<u>Impact of change in accounting policy</u>			
Deferred taxes	-	0.07	(0.07)
(refer Note 2(a) in Annexure 4)			
<u>Impact of items of prior years</u>			
Provision for Gratuity	-	0.17	(0.17)
(refer Note 3(a) in Annexure 4)			
Excess provisions written back	-	(0.83)	0.83
(refer Note 3(b) in Annexure 4)			
Total Difference due to adjustments	-	(0.59)	0.59
Net Profit as restated	8.42	28.98	15.56

To be read together with the notes forming part of the Unconsolidated Statement attached.

ANNEXURE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Background

Icon Hospitality Private Limited ('Icon' or 'the Company') was incorporated on 28 January 2003 as a private limited company providing hospitality services. The Company operates Royal Orchid Central in Bangalore, India and the Company has leased the land, building and certain assets from Sacred Hospitality Private Limited under an operating lease arrangement for a period of 25 years. For its daily operations, the Company has also entered into an agreement with Royal Orchid Hotels Limited, the holding Company for which it pays a management fee.

2. Significant accounting policies

i. Basis of preparation

The financial statements are prepared on accrual basis under the historical cost convention and in accordance with the applicable accounting standards issued by the Institute of Chartered Accountants of India. The accounting policies have been consistently applied unless otherwise stated.

ii. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the results of operations during the reporting periods. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimates. Significant estimates used by management in the preparation of these financial statements include the estimates of the economic useful lives of the fixed assets, provisions for bad and doubtful debts and accruals for leave encashment and gratuity.

iii. Revenue recognition

Revenues comprise income from the sale of rooms, food and beverages and allied services during a guest's stay at the hotel. Room revenue is recognized based on occupation and revenue from sale of food and beverages and other allied services, as the services are rendered.

Unbilled revenues represent revenues recognized which have not been billed to the customers at the balance sheet date and are billed subsequently.

iv. Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. All costs relating to acquisition and installation of fixed assets are capitalised. Advances paid towards acquisition of fixed assets before the financial year-end are classified as capital work in progress.

Financing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use.

The carrying amounts are reviewed at each balance sheet date when required to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

Expenditure directly relating to expansion is capitalized only if it increases the value of the asset beyond its original standard of performance.

v. Depreciation

Depreciation on fixed assets is provided on the Straight Line method, using the higher of rates specified in Schedule XIV to the Companies, Act, 1956 or the management estimates of the economic useful lives of such assets. These rates are specified below:

Asset category	Rates of depreciation used (%)
Plant and machinery	4.75%
Furniture and fixtures	9.50% - 20%
Computers and related equipment, including software	16.21%
Office equipment	4.75%
Vehicles	9.50%

Assets individually costing less than Rs 5,000 are fully depreciated in the year of purchase. Improvements to buildings are amortized over the period of the lease.

vi. Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the profit and loss account. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

vii. Inventory

Inventory comprises stock of food and beverages and operating supplies and is carried at the lower of cost and net realizable value. Cost includes all expenses incurred in bringing the goods to their present location and condition and is determined on a Weighted Average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and to make the sale.

viii. Foreign currency transactions

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transaction. Monetary foreign currency assets and liabilities are translated into rupees at the rates of exchange prevailing on the balance sheet date. The differences in translation of monetary assets and liabilities and realised gains and losses on foreign currency transactions, other than those related to fixed assets are recognised in the profit and loss account. Exchange differences in respect of liabilities incurred to acquire fixed assets are adjusted in the carrying cost of fixed assets.

ix. Leases

Finance leases

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised.

If there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term, capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognized as an expense in the Profit and Loss account on a straight-line basis over the lease term.

x. Retirement benefits

The Company provides for gratuity, a defined benefit plan in accordance with the rules of the Company based on an actuarial valuation carried out at the balance sheet date, by an independent actuary. Contributions payable to the recognized Provident Fund and Employee State Insurance Scheme, which are defined contribution schemes, are charged to the profit and loss account as incurred.

xi. Leave encashment

The Company provides for the leave encashment liability at the balance sheet date based on the accumulated leave balance of the employees and the last drawn salary.

xii. Taxes on income

Tax expense comprises both current and deferred taxes. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits.

Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

xiii. Contingent liabilities

The Company creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

xiv. Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period. The weighted average numbers of equity shares outstanding during the period are adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split; and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

ANNEXURE 4 – NOTES TO THE UNCONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES, AS RESTATED

(All amounts in Rupees millions unless otherwise restated)

1. Adjustments on account of qualifications in auditors' reports

The auditors of the Company (M/s Walker Chandiok & Co.) have qualified their report to the members of the Company for the quarter ended 30 June, 2005 and year ended 31 March 2005 attributable to the remuneration to the directors being in excess of the limits prescribed in Section 309 of the Companies Act, 1956 and the non-transfer of the license to sell liquor at the Central Park Hotel. These qualifications along with the related notes to the accounts are reproduced below:

Note 6 (c) of Schedule 20 to the financial statements

Sacred Hospitality Private Limited has transferred to the Company, the right to use its license to sell liquor at the Central Park Hotel for a consideration included in the lease rentals. In accordance with the terms of the deed of the license, the taxes are to be paid by the Company and the revenues from such sales are recorded in these financial statements. As per the provisions of the Karnataka Excise Act, 1965, transfer of leases or licenses to sell liquor requires the approval of the State Government. The Company has not yet applied to the State Government for such transfer.

Note 7 (a) of schedule 20 to the financial statements

As per the provisions of Section 309 of the Companies Act, 1956, remuneration payable to directors not in the whole time employment of the Company cannot exceed 3% of the net profits for the year, without the prior approval of the Central Government. The total remuneration paid to the directors during the quarter ended 30 June, 2005 and year ended 31 March 2005 exceeds the limits as specified in Section 309 by Rs 1.80 million and Rs 7.34 million respectively. On 21 May 2005, the Company has applied to the Central Government seeking an approval of the amounts paid in excess of the limits specified above for the year ended 31 March, 2005, the approval for which has not been received till date.

Since the impact of the above qualifications on the financial statements of the Company cannot be quantified, no adjustment has been made to the Unconsolidated Statements of Assets and Liabilities and Profits and Losses, as restated on account of these audit qualifications.

2. Adjustments on account of changes in accounting policy

a. Deferred taxation

The Company adopted the provisions of AS 22 – *Accounting for taxes on Income*, issued by the ICAI for the accounting period commencing effective 1 April 2004, for the preparation of these Unconsolidated Statement of Assets and Liabilities and Profits and Losses, as restated, the deferred tax asset/liability has been recorded in the year of origination with a corresponding effect in the Unconsolidated Statement of Assets and Liabilities and Profits and Losses, as restated.

Accordingly, as at 1 April 2004, the Company charged the net deferred tax liability aggregating Rs 0.06 million to the profit and loss account for the year then ended.

3. Adjustments relating to previous years

a. Accounting for gratuity

Prior to accounting periods commencing 1 April 2004, the Company did not provide for gratuity payable to its employees. Effective 1 April 2004, the Company has commenced providing for gratuity based on an actuarial valuation by an independent actuary as at the balance sheet date.

Accordingly, for the preparation of these Unconsolidated statements, as restated, the Company has recorded the gratuity provision in the year to which the liability pertains in the 'Unconsolidated Statement of Assets and Liability, as Restated' with a corresponding charge to the 'Unconsolidated Statement of Profits and Losses, as Restated'.

b. Write back of excess provisions pertaining to prior years

During the year ended 31 March 2005, the Company has written back to the profit and loss account provision for income tax for earlier years. Accordingly, the effect of these write backs has been considered in the respective years in which these accruals were originally recorded. A corresponding adjustment has been made in the 'Unconsolidated Statement of Profit and Loss, as Restated'.

4. **Secured loans**

	June 30	March 31	
	2005	2005	2004
Vehicle loans	5.47	5.82	6.74
	5.47	5.82	6.74

Note:

These loans represent amounts payable for vehicles taken on loans that are secured against the hypothecation of the vehicles acquired. These loans carry an interest rate varying from 6 percent to 8.49 percent and are repayable through 2009. Amounts due in one year at June 30 2005 is Rs. 1.78 million.

5. **Sundry debtors**

	June 30	March 31	
	2005	2005	2004
Debts outstanding for a period exceeding six months:			
-considered good	0.49	0.62	-
-considered doubtful	0.48	0.38	-
Other debts			
-considered good	10.81	7.55	6.63
	11.78	8.55	6.63
Less: Provision for doubtful debts	(0.48)	(0.38)	-
	11.30	8.17	6.63

6. **Loans and advances**

	June 30	March 31	
	2005	2005	2004
(Unsecured, considered good)			
Advances recoverable in cash or in kind or for value to be received			
Security deposits	6.28	6.23	6.3
Prepaid Expenses	9.29	11.57	0.37
Advances to suppliers	0.37	0.82	1.35
Dues from associates	1.08	0.63	-
Others	0.43	0.37	0.03
	17.45	19.62	8.05

Note:

- a) Prepaid expenses include Rs 9.99 million representing insurance premium paid towards two Keyman Insurance policies taken by the Company for two of its directors. The premiums are for the period from 31 March 2005 to 31 March 2006.
- b) Dues from associates represent amounts due from companies under the same management. The maximum amount outstanding during the year ended 31 March 2005 was Rs. 2,623,608

7. Other income

	30 June 2005	31 March 2005	31 March 2004
Other Income, as restated	0.25	2.54	0.87
Net Profit before tax as restated	12.37	46.01	23.80
%	2.02%	5.60%	3.53%
Sources of income			
Gain on sale of investments	-	1.38	-
Interest income	0.04	0.32	0.49
Rent	0.06	0.23	0.18
Others	0.15	0.61	0.20
	0.25	2.54	0.87

Computation of Net profit before tax as restated

	30 June 2005	31 March 2005	31 March 2004
Net profit as restated	8.42	28.98	15.56
Current tax expense for the period/year	3.95	16.50	9.00
Deferred tax expense for the period/year		0.60	
Deferred tax related restatement adjustment		0.83	(0.83)
Income tax provision written back			
Net profit/ before tax as restated	12.37	46.01	23.80

8. Leases

Operating leases

The business of the Company comprises revenues from the operation of the Royal Orchid Central at Bangalore. This operation is carried out through a lease entered into with Sacred Hospitality Private Limited in January 2003. As per the provisions of this arrangement, the Company has leased the land, the associated hotel building and other assets necessary for the operation of the hotel under a non-cancellable operating lease arrangement for a period of five years. This agreement was renewed in June 2004 extending the period of the lease for a further period of 20 years ending on 30 January 2028.

As per the agreement, the Company is required to make annual payments at 33% of net room revenues determined after reducing certain allowable expenses from the room revenues for the period, or a minimum committed amount, whichever is higher. This lease includes an escalation provision of 15% from the previous rent, every three years commencing from July 2010. This agreement also requires the Company to invest Rs 50 million towards renovation and improvement of the concerned property within three years from the date of the arrangement or within six months from obtaining a favourable order from the Supreme Court of India on the matter currently pending before it.

The lease expense for cancellable and non-cancellable operating leases during the period ended 30 June 2005 and years ended 31 March 2005 and 2004 was Rs. 13.17 , Rs 44.58 million and Rs. 26.61 million respectively

The details of lease commitments as at June 30, 2005 in terms of minimum lease payments within the non-cancellable period are as follows:

	Amount
--	---------------

Payments falling due:	
Within 1 year	30.00
Later than one year but not later than five years	121.10
Later than 5 years	897.40
TOTAL	1,048.50

9. Commitments and contingencies

(a) Litigation

A legal case was filed by certain residents of the area in which Royal Orchid Central is located against Industrial Credit and Development Syndicate ('ICDS') (the owner of the premises before Sacred Hospitality Private Limited) for the demolition of Manipal Centre (the premises which also houses the hotel construction) on the grounds that the building is not constructed as per the building bye laws. However, the Company has not been made a party to these legal proceedings. Currently, the writ petition has been referred by the Supreme Court of India to the High Court of Karnataka for a resolution for the process and the judgment has been reserved for February 2008. Management believes that this litigation will have a favourable outcome and not adversely impact the operations of the Company.

Further, as per the terms of the lease agreement referred to in note 8 above, in the event of an unfavourable order in this regard, the Company is entitled to terminate the lease, claim reasonable damages, if any and have a charge on the hotel property. The lessor also proposes to indemnify the Company against any loss or damage to the property from litigation pertaining to acts committed by the lessor prior and upto the period of the lease.

(b) Capital commitments

Estimated amount of contracts remaining to be executed on capital account and not provided for as at June 30, 2005 – Rs 6.43 million. Additionally, as discussed in note 8 of this schedule, the Company is required to invest Rs 50 million in the renovation and improvement of the hotel. As at 31 March 2005, the Company has invested approximately Rs 27.78 million in this regard.

(c) Other matters

Sacred Hospitality Private Limited has transferred to the Company, the right to use its license to sell liquor at the Central Park Hotel for a consideration included in the lease rentals. In accordance with the terms of the deed of the license, the taxes are to be paid by the Company and the revenues from such sales are recorded in these financial statements. As per the provisions of the Karnataka Excise Act, 1965, transfer of leases or licenses to sell liquor requires the approval of the State Government. The Company has not yet applied to the State Government for such transfer.

10. Related party transactions

- i. Parties where control exists
Parties where control exists include:

Name of the related party	Relationship
Royal Orchid Hotels Limited	Holding company
Mr. C.K.Baljee	Key management personnel (Director)
Sunita Baljee	Key management personnel
Presidency Caterers	Entity controlled by Directors
Harsha Farms Private Limited	Entity controlled by Directors
Baljee Hotels and Real Estate Private Limited	Entity controlled by Directors
Hotel Staylonger Private Limited	Entity controlled by Directors
Presidency College of Hotel Management	Entity controlled by Directors

ii. Transactions with related parties during the year

Parties with whom transactions have taken place during the year include:

Name of the related party	Relationship
Royal Orchid Hotels Limited	Holding Company
Chander K.Baljee	Key management personnel (Director)
Sunita Baljee	Key management personnel (Director)
Dayananda Pai	Key management personnel (Director)
Baljee Hotels and Real Estate Private Limited	Entity controlled by Directors

The transactions with related parties during the quarter ended 30 June 2005 *are* summarised below:

Nature of transaction	Holding company	Associates	Key Management Personnel	TOTAL
Management Service fee received	2.46	-	-	2.46
Payments received on behalf of the Holding Company	0.05	-	-	0.05
Payments made on behalf of the Holding Company	-	-	-	-
Payments made on behalf of associates	-	1.16	-	1.16
Managerial Remuneration	-	-	2.25	1.25

The transactions with related parties during the year ended 31 March 2005 *are* summarised below:

Nature of transaction	Holding company	Associates	Key Management Personnel	TOTAL
Management Service fee received	9.79	-	-	9.79
Purchase of raw material	-	-	-	-
Sale of raw material	0.06	-	-	0.06
General and administrative expenses incurred on behalf of related parties charged to related parties	1.21	-	-	1.21
General and administrative expenses incurred by related parties on behalf of the company charged by related parties	2.01	-	-	2.01
Short Term Loan to Holding Company	30.00	-	-	30.00
Settlement of Short Term Loan to Holding Company	30.00	-	-	30.00

Managerial Remuneration	-	-	9.00	9.00
-------------------------	---	---	------	------

The transactions with related parties during the year ended 31 March 2004 is summarised below:

Nature of transaction	Holding company	Associates	Key Management Personnel	TOTAL
Management Service fee received	5.26	-	-	5.26
General and administrative expenses incurred on behalf of related parties charged to related parties	0.68	-	-	0.68
General and administrative expenses incurred by related parties on behalf of the company charged by related parties	0.70	-	-	0.70
Managerial Remuneration	-	-	6.58	6.58

Balances receivable/ (payable) from/to related parties as at June 30, 2005 and 31 March, 2005 and 2004 is summarised below:

	30 June 2005	31 March 2005	31 March 2004
Holding Company	(6.27)	(3.65)	(7.27)
Key Management Personnel	(0.50)		
Associates	1.08	0.63	Nil

11. Segment Information

The Company's business comprises the operation of the Royal Orchid Central the services of which represent one business segment as they are subject to risks and returns that are similar to each other. Further the Company derives its entire revenues from services rendered in India. Consequently, the disclosure of business and geographic segment - wise information is not applicable to the Company.

ANNEXURE 5 – UNCONSOLIDATED STATEMENT OF CASH FLOWS, AS RESTATED

(Amounts in Rupees millions)

Particulars	3 months ended	Year Ended March 31	
	June 30 2005	2005	2004
Cash Flows from operating activities			
Net Profit before taxation, as restated (Refer note 7, Annexure 4)	12.37	46.01	23.80
Adjustments for:			
Depreciation	0.57	2.01	0.42
Interest/ Dividend Income	(0.04)	(0.32)	(0.49)
Interest Paid	0.08	0.40	0.18
Profit on sale of investments	-	(1.37)	-
Provision for bad and doubtful debts	0.48	0.38	-
Operating Profit before Working Capital Changes	13.46	47.11	23.91
(Increase) in sundry debtors	(3.60)	(1.93)	(3.30)
(Decrease) in Inventories	0.07	(0.37)	(0.16)
(Increase)/Decrease in unbilled revenues	(0.28)	0.15	(1.16)
(Increase) in loans and advances	2.18	(11.58)	(4.33)
(Increase) in bank deposits and margin monies	(5.16)	(4.47)	-
Decrease in current liabilities	3.37	1.03	7.92
Income-taxes paid, net of refunds	(3.10)	(14.00)	(8.17)
Net Cash Flows from Operating Activities	6.94	15.94	14.71
Cash Flows from Investing Activities			
Purchase of Fixed Assets and increase in Capital work in	(1.82)	(25.20)	(9.99)
Investments Purchased	(10.87)	(18.50)	-
Short term loan to holding company	-	(30.00)	-
Repayment of loan by holding company	-	30.00	-
Sale / maturity of investments	-	19.87	-
Interest received	0.02	0.32	0.49
Net Cash Flows (used in) Investing Activities	(12.67)	(23.51)	(9.50)
Cash Flows from Financing Activities			
Proceeds from long-term borrowings	-	0.40	6.75
Repayment of long-term borrowings	(0.35)	(1.30)	-
Proceeds from issuance of share capital	-	-	1.00
Interest Paid	(0.08)	(0.40)	(0.18)
Net Cash Flows (used in)/ from Financing Activities	(0.43)	(1.30)	7.57
Net increase in cash and cash equivalents	(6.16)	(8.87)	12.78
Cash and Cash Equivalents – balance at the beginning	13.21	22.08	9.30
Cash and Cash Equivalents – balance at the end of the	7.05	13.21	22.08

Note:

- a The Company considers all highly liquid investments with a remaining maturity, at the date of purchase/investment, of three months or less to be cash equivalents.

Components of cash and cash equivalents as at	June 30, 2005	March 31, 2005	March 31, 2004
Cash and bank balances at 30 June 2005 (Refer Schedule 10)	16.67	17.67	22.08
Less: Bank deposits and margin monies considered separately (Refer note above)	9.62	4.46	-
	7.05	13.21	22.08

CHANGES IN ACCOUNTING POLICIES

For changes in accounting policies, refer to “Financial Information” on page 91 of this Draft Red Herring Prospectus.

SELECT CONSOLIDATED FINANCIAL INFORMATION.

Statement of Restated Assets and Liabilities

(Amounts in Rs millions)

	June 30,	March 31,				
	2005	2005	2004	2003	2002	2001
Fixed Assets						
Gross block	323.70	320.47	218.40	207.44	204.02	151.90
Less: Accumulated Depreciation	57.10	52.85	31.63	20.48	11.07	1.47
Net Block	266.60	267.62	186.77	186.96	192.95	150.43
Capital Work in Progress	135.47	101.75	48.32	16.32	-	-
Net Block after adjustment for Revaluation Reserve	402.07	369.37	235.09	203.28	192.95	150.43
Investments	0.03	0.03	0.12	0.12	0.12	0.09
Current Assets, Loans and Advances						
Inventories	7.20	5.42	3.91	3.07	4.23	0.02
Sundry Debtors	37.90	28.12	22.13	12.89	5.96	0.18
Cash and Bank Balances	78.96	68.81	74.66	8.68	2.92	39.27
Unbilled revenue	5.50	3.55	4.41	0.63	0.21	-
Loans and Advances	112.06	120.84	99.78	80.21	64.23	64.19
Deferred tax asset, net	0	-	-	12.14	14.06	2.80
	241.62	226.74	204.89	117.62	91.61	106.46
Liabilities and Provisions						
Secured Loans	201.78	203.79	215.21	193.56	182.85	150.00
Unsecured Loans	1.28	1.28	7.00	7.54	7.04	8.12
Current Liabilities and Provisions	84.85	82.58	77.32	42.64	19.90	5.31
Deferred Tax Liability, net	25.69	26.50	8.60	-	-	-
	313.60	314.15	308.13	243.74	209.79	163.43
Net Worth	330.12	281.99	131.97	77.28	74.89	93.55
Represented by:						
Share Capital	96.95	96.95	91.23	91.23	91.23	91.23
Reserves/(Accumulated Losses)	204.08	160.2	30.34	(13.85)	(16.23)	2.44
Minority interest	29.09	24.84	10.50	-	-	-
	330.12	281.99	132.07	77.38	75.00	93.67
Misc. Expenditure to the extent not written off or adjusted	-	-	0.10	0.10	0.11	0.12
Net Worth (F-G)	330.12	281.99	131.97	77.28	74.89	93.55

Statement of Restated Profit and Loss

(Amounts in Rs millions)

Particulars	Quarter ended June 30,	Year Ended March 31				
	2005	2005	2004	2003	2002	2001
Income						
Sales:						
Room revenues	122.95	435.84	230.90	71.24	26.90	0.01
Food and beverages	36.46	117.52	102.75	61.63	25.60	0.16
Other service charges	4.05	16.56	16.45	12.33	3.43	0.00
Other income	2.39	11.90	9.10	5.87	0.55	0.02
Total income	165.85	581.82	359.20	151.07	56.48	0.19
Expenditure						
Food and beverages consumed	11.00	37.22	36.32	18.28	9.57	0.10
Employee costs	16.03	49.29	35.07	18.29	8.85	0.06
Other operating expenses	37.69	138.86	104.72	35.34	12.96	0.00
General and administrative expenses	27.62	94.96	56.45	26.07	14.36	0.07
Preliminary expenses written off	0	0.10	0.10	0.01	0.01	0.00
Total expenditure	92.34	320.43	232.66	98.00	45.75	0.23
Profit/(loss) Before Depreciation, Interest and Tax	73.51					
		261.39	126.54	53.07	10.73	(0.04)
Depreciation	4.24	22.30	19.29	9.43	6.59	0.16
Interest & Finance Charges	3.89	24.80	29.61	36.31	27.74	0.01
Profit /(loss)before tax, change in accounting policy and prior period items	65.38	214.29	77.64	7.33	(23.60)	(0.21)
Change in accounting policy	-	29.50	(25.60)	-	-	-
Prior period Expenses	-	(9.00)	-	-	-	-
Profit /(loss)before tax and minority interest	65.38	234.79	52.04	7.33	(23.60)	(0.21)
Current tax	(16.37)	(53.50)	(11.50)	(0.20)	-	-
Deferred tax	0.79	(20.00)	(6.50)	-	-	-
Provision for income tax written back		0.80	-	-	-	-
Net profit /(loss) before minority interest	49.80	162.09	34.04	7.13	(23.60)	(0.21)
Minority interest	(4.11)	(14.40)	(7.30)	-	-	-
Net Profit/(loss) before adjustments	45.69	147.69	26.74	7.13	(23.60)	(0.21)
						-
Total Difference due to adjustments	(1.79)	(17.82)	16.74	(4.75)	4.93	(1.16)
Net Profits as restated	43.90	129.87	43.48	2.38	(18.67)	(1.37)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements included in this Draft Red Herring Prospectus. You should also read the section titled "Risk Factors" beginning on page viii of this Draft Red Herring Prospectus, which discusses a number of factors and contingencies that could impact our financial condition and results of operations. The following discussion relates to Royal Orchid Hotels Limited on a consolidated basis. These financial statements have been prepared in accordance with Indian GAAP, the Companies Act and the SEBI (DIP) Guidelines and restated as described in Auditor's report of M/s Walker Chandiok & Co. dated October 22, 2005, on page 91 titled "Financial Information". All the discussion in the following section is based on the restated numbers of each item in the financial statements.

The following discussions is based on our restated financial statements for the financial year ended March 31, 2002, March 31, 2003, March 31, 2004 and March 31, 2005 and for the quarter ended June 30, 2005 which have been prepared in accordance with Indian GAAP, the Companies Act and the SEBI (DIP) Guidelines and on information available from other sources. Our fiscal year ends on March 31 each year, so all references to a particular year are to the twelve-month period ended on March 31 of that year.

The Directors confirm that there have been no events or circumstances since the date of the last financial statements which materially and adversely affect or are likely to affect the profitability of the Company or the value of its assets or its ability to pay its liabilities within the next twelve months.

Overview

Our Company operates and manages a chain of hotels under the brand "Royal Orchid" in Bangalore and Mysore in the state of Karnataka, India. At present we manage four hotels- Hotel Royal Orchid, Royal Orchid Central, Royal Orchid Harsha in Bangalore and Royal Orchid Metropole in Mysore. Each hotel is targeted at a specific category of clientele giving us access to various customer segments.

We have two subsidiary companies i.e. Icon Hospitality Private Limited and Royal Orchid Hyderabad Private Limited. The table below lists our subsidiaries included in the consolidation of our financial statements and our respective holdings in each.

Name of Subsidiary	FY2005
Icon Hospitality Private Limited	51.22%
Royal Orchid Hyderabad Private Limited	51%

Our flagship hotel viz. Hotel Royal Orchid commenced operations in August 2001. Subsequently, in July 2002 we started operations at Royal Orchid Harsha and in April 2003 we commenced operations at Royal Orchid Central. Royal Orchid Metropole came into our fold in October 2004. We are now expanding our presence in Bangalore through the acquisition of another property and starting operations in new hotels in Hyderabad and Pune.

In the four existing hotels put together we offer 435 rooms and we operate eight Food & Beverage outlets and twelve banquet halls. The revenue break-up from our main operations for the year FY 2005 is as follows:

Particulars	FY 2005		Q1 FY 2006	
	Amount (Rs mn)	Percentage	Amount (Rs mn)	Percentage
Room Revenues	435.84	75.62%	122.95	74.94%
Food & Beverage	117.52	20.39%	36.46	22.22%
Other Service Charges	16.56	2.87%	4.05	2.47%
Total Operating Revenue	569.92	98.88%	163.46	99.63%
Other Income	6.41	1.11%	0.60	0.37%
Total	576.33	100 %	164.06	100%

The following table illustrates the break-up of revenues from operations from our different hotels in FY 2005:

Hotel	Room Revenue (Rs mn)	Food & Beverage Revenue (Rs mn)	Other Service Charges (Rs mn)	Total
Hotel Royal Orchid	238.77	62.41	8.94	310.12
Royal Orchid Central	147.39	29.28	5.32	181.99
Royal Orchid Harsha	41.76	21.22	2.02	65.00
Royal Orchid Metropole	7.92	4.61	0.28	12.81
Total	435.84	117.52	16.56	569.92

We primarily focus on business customers and our different properties enable us to cater to senior, middle and junior management of corporates. We also cater to airline crews and we enter into periodic tie-ups with different airlines for providing accommodation to their crew.

Key factors influencing results of operations

Several factors influence our results of operations, financial condition and cash flow significantly. The key factors affecting our operations include:

- Demand and supply of hotel accommodation at the places where our existing and proposed hotel properties are located. The nature of demand and supply will affect our occupancy rates and average room rates and thereby our revenues
- Competition from existing as well as new hotels and our ability to compete in areas such as room rates, quality of accommodation and amenities and service levels
- Operating expenses including lease payments, food and beverage costs, employee compensation and power and fuel costs
- Government policies including taxes and duties affecting the hotel industry
- Fluctuations in interest rates and foreign exchange rates
- Seasonality in our operations

For more information on these and other factors/developments which have or may affect us, see “Risk Factors” of this Draft Red Herring Prospectus and “Business” on page 48 of this Draft Red Herring Prospectus.

Financials

Total Income:

The revenues for our Company have increased at a CAGR of 116.90% over the period FY 2002-2005. After gaining expertise in the hotel industry and recognising the rising demand for hotel accommodation for business travellers, we have continuously expanded our capacity and service offerings. The following table illustrates our capacity expansion over the years.

No. of Rooms as on	March 31, 2002	March 31, 2003	March 31, 2004	March 31, 2005	June 30, 2005
Hotel Royal Orchid	90	100	139	140	140
Royal Orchid Central (Commenced in April 03)	---	---	130	130	130
Royal Orchid Harsha (Commenced in July 2002)	---	80	80	80	80
Royal Orchid Metropole (Commenced in October 04)	---	---	---	30	30
Total Rooms	90	180	349	380	380

The composition of income from operations since FY 2002 is as under:

Rs. In Millions					
Particulars	FY 2002	FY 2003	FY 2004	FY 2005	Q1 FY 2006
Room Revenues	26.90	71.24	230.90	435.84	122.95
Food and Beverage revenues	25.60	61.63	102.75	117.52	36.46
Other Service Charges*	3.43	12.33	16.45	16.56	4.05
Income from Operations	55.93	145.20	350.10	569.92	163.46

* Other service charges comprises of revenues from telephone services, laundry and travel services.

Our Company draws business from a diverse customer base including domestic and international business and leisure travellers. In addition we also cater to various airline crews. We are constantly striving towards maintaining and enlarging our customer base. The percentage of revenues derived from the Company's top customer and top 5 customers is tabulated as under:

Particulars	March 31, 2003	March 31, 2004	March 31 2005
Top Customer	3.31%	3.61%	3.90%
Top 5 Customers	11.3%	10.55%	11.76%
Top 10 Customers	15.94%	16.40%	18.49%

Expenditure:

Our main heads of expenditure and the details for the period FY 2002-2005 are given below

Rs. in Millions					
Particulars	FY 2002	FY 2003	FY 2004	FY 2005	Q1 FY 2006
Food & Beverage	9.57	18.28	36.32	37.22	11.00
Employee Costs	10.43	19.46	34.37	47.49	16.03
Other Operating Expenses	14.07	36.36	109.16	138.86	37.69
General and Administrative Expenses	14.98	26.69	57.07	90.69	27.62
Preliminary expenses written off	0.01	0.01	0.1	0.1	0
Total	49.06	100.80	237.02	314.36	92.34

- The food and beverage expenses have grown at a CAGR of 57.26% in the period FY 2002 – FY 2005. However the food and beverage expense as a percentage of food and beverage revenue has reduced from 37.38% in FY 2002 to 31.67% in FY 2005.
- Employee costs increased by a CAGR of 65.74% in the period FY 2002 – FY 2005. The employee costs as a percentage of total revenues reduced from 18.47% in FY 02 to 8.24% in FY 2005.
- Other operating expenses primarily comprise of linen and room supplies, laundry expenses, power and fuel expenses, water expenses etc. Other operating expenses have increased by a CAGR of 114.50% over the period FY 2002 – FY 2005. This increase can be attributed to our expansion in these years. However, other operating expenses as a percentage of the total revenue has come down from 24.91% in FY 2002 to 24.09% in FY 2005.
- General and administrative expenses comprise of the agent commissions and discounts, sales tax and other statutory taxes and advertisement expenses. General and administrative expenses as a percentage of total revenue decreased from 26.52% in FY 2002 to 15.74% in FY 2005.

Financial Expenses

The following table illustrates the debt outstanding at the end of each financial year and the financial expenses incurred in each of the financial years

Rs. in millions				
Particulars	FY 2002	FY 2003	FY 2004	FY 2005
Secured Loans	182.85	193.56	215.21	203.79
Financial Expenses	27.74	36.31	29.61	24.8

Working Capital

The working capital position of our company over the past three fiscal years is given below

Rs. In millions				
Particulars	FY 2002	FY 2003	FY 2004	FY 2005
Sundry Debtors	5.96	12.89	22.13	28.12
Sundry Creditors	12.10	23.58	20.14	30.14
Debtor Days	39	32	23	18
Creditor Days	90	85	31	35

Comparison of the significant items of income and expenditure between financial statements for FY 2005 over FY2004, FY 2004 over the previous year FY2003, FY 2003 over the previous year FY 2002.

Rs. in Millions

	FY 2002	FY 2003	FY 2004	FY 2005	Q1 FY 2006
Income					
Room Sales	26.90	71.24	230.90	435.84	122.95
<i>y o y growth %</i>		164.83%	224.12%	88.76%	
Food & Beverage	25.60	61.63	102.75	117.52	36.46
<i>y o y growth %</i>		140.74%	66.72%	14.37%	
Other Service Charges	3.43	12.33	16.45	16.56	4.05
<i>y o y growth %</i>		259.48%	33.41%	0.67%	
Total Operating Income	55.93	145.20	350.10	569.92	163.46
<i>y o y growth %</i>		159.61%	141.12%	62.79%	
Other Income	0.55	5.87	10.7	6.41	0.6
<i>y o y growth %</i>		967.27%	82.28%	-40.09%	
Total Income	56.48	151.07	360.80	576.33	164.06
<i>y o y growth %</i>		167.48%	138.83%	59.74%	
Expenditure					
Food & Beverage	9.57	18.28	36.32	37.22	11
<i>y o y growth %</i>		91.01%	98.69%	2.48%	
<i>% of Food & Beverage Revenue</i>	37.38%	29.66%	35.35%	31.67%	30.17%
Employee Costs	10.43	19.46	34.37	47.49	16.03
<i>y o y growth %</i>		86.58%	76.62%	38.17%	
<i>% of Total Revenue</i>	18.47%	12.88%	9.53%	8.24%	9.77%
Other Operating Expenses	14.07	36.36	109.16	138.86	37.69
<i>y o y growth %</i>		158.42%	200.22%	27.21%	
<i>% of Total Revenue</i>	24.91%	24.07%	30.25%	24.09%	22.97%
General and Administrative Expenses	14.98	26.69	57.07	90.69	27.62
<i>y o y growth %</i>		78.17%	113.83%	58.91%	
<i>% of Total Revenue</i>	26.52%	17.67%	15.82%	15.74%	16.84%
Total Expenditure	49.06	100.80	237.02	314.36	92.34
<i>y o y growth %</i>		105.46%	135.14%	32.63%	
<i>% of Total Revenue</i>	86.86%	66.72%	65.69%	54.55%	56.28%
Earning Before Depreciation Interest & Tax	7.42	50.27	123.78	261.97	71.72
<i>y o y growth %</i>		577.49%	146.23%	111.64%	
<i>% of Total Revenue</i>	13.14%	33.28%	34.31%	45.45%	43.72%
Depreciation	9.60	9.45	11.19	22.30	4.24
<i>y o y growth %</i>		-1.56%	18.41%	99.29%	
Interest & Finance Charges	27.74	36.31	29.61	24.80	3.89
<i>y o y growth %</i>		30.89%	-18.45%	-16.24%	
Profit/(loss) before tax & minority interest	-29.92	4.51	82.98	214.87	63.59
<i>y o y growth %</i>		NA	1739.91%	158.94%	
<i>% of Total Revenue</i>		2.99%	23.00%	37.28%	38.76%
Current tax	0.00	0.2	11.5	52.7	16.37
Deferred tax	-11.25	1.92	20.7	17.9	-0.79
Net Profit before Extraordinary Items & Minority Interest	-18.67	2.39	50.78	144.27	48.01
Net adjusted profit after extraordinary items	-18.67	2.39	43.48	129.87	43.9
<i>y o y growth %</i>		NA	1719.25%	198.69%	
<i>% of Total Revenue</i>		1.58%	12.05%	22.53%	26.76%

Note: y o y growth refers to the growth over the previous financial year

Results of operations for the three month period ending June 30, 2005

Income from Operations

Our total income from operations during the quarter ended June 30, 2005 was Rs. 163.46 million

Room Revenue

Our room revenues for the quarter ended June 30, 2005 were Rs. 122.95 million. The occupancy rates and ARR's at individual hotel properties is given below.

Property	Occupancy (%)	ARR (Rs)
	3 months ended 30 June 2005	
Hotel Royal Orchid	83.03%	6,204
Royal Orchid Central	85.67%	4,154
Royal Orchid Harsha	76.81%	1,803
Royal Orchid Metropole	38.64%	3,014

Food and Beverage Revenue

The food and beverage revenue for the quarter ended June 30, 2005 was Rs. 36.46 million

Other Service Charges

The revenue from other service charges for the quarter ended June 30, 2005 was Rs. 4.05 million

Expenditure

The total expenditure for the quarter ended June 30, 2005 was Rs. 92.34 million.

Food & Beverage Costs

Our food and beverage expenses for the quarter ended June 30, 2005 was Rs. 11 million. Our food and beverage costs as a percentage of food and beverage revenue has come down marginally from 31.67% in FY 2005 to 30.17% in Q1 FY 2006.

Employee Costs

Employee costs for the quarter ended June 30, 2005 was Rs. 16.03 million. Employee cost as a percentage of total revenue increased from 8.24% in FY 2005 to 9.77% in Q1 FY 2006. There have been a number of recruitments by our Company during the middle of FY 2005 which has increased the employee cost as a percentage of revenues.

Other Operating Expenses

Our other operating expenses increased for the quarter ended June 30, 2005 was Rs. 37.69 million. Other operating expenses as a percentage of total revenue reduced from 24.09% in FY 2005 to 22.97% in Q1 FY 2006. Other operating expenses are less variable with the room revenues and are more related to the expansion of property.

The general and administrative expenses for the quarter ended June 30, 2005 were Rs. 27.62 million. General and administrative expenses as a percentage of total revenues increased from 15.74% in FY 2005 to 16.84% in Q1 FY 2006.

Earnings before Interest, Depreciation, Amortization and Tax (EBITDA)

The EBITDA for the quarter ended June 30, 2005 was Rs. 71.72 million. The EBITDA margin for the period has reduced to 43.72% as compared to 45.45% in FY 2005. The reduction in the EBITDA margin can be attributed to a great extent to the increase in employee costs as a percentage of revenue

Depreciation and Interest Cost

The depreciation for the quarter ended June 30, 2005 was Rs. 4.24 million.

The interest cost for the quarter ended June 30, 2005 was Rs. 3.89 million.

Profit Before Tax and Minority Interest

Our profit before tax for the quarter ended June 30, 2005 was Rs. 63.59 million. The profit before tax as a percentage of total revenue has increased to 38.76% in this period from 37.28% in FY 2005.

Taxation

The total tax paid by our Company including the deferred tax for the quarter ended June 30, 2005 was Rs. 15.58 million.

Adjusted Net Profit

Our Adjusted net profit for the quarter ended June 30, 2005 was Rs. 43.9 million. The net profit margin for Q1 FY 2006 was 26.76% as compared to 22.53 % in FY 2005.

Fixed Assets

The net fixed assets reduced marginally to Rs. 266.60 at end of Q1 FY 2006 from Rs. 267.62 million in FY 2005.

Networth

The consolidated networth of our Company increased to Rs. 330.12 million in Q1 FY 2006 from Rs. 281.99 million in FY 2004.

Results of operations for the year ending March 31, 2005 compared to year ended March 31, 2004

Income from Operations

Our total income from operations increased by 63 % from Rs. 350.10 million in FY 2004 to Rs. 569.92 million in FY 2005.

Room Revenue

Our room revenues increased by 88.76 % from Rs. 230.90 million in FY 2004 to Rs. 435.84 million in FY 2005. This increase has been achieved through a combination of capacity expansion increase in occupancy rates and average room rentals. The room rentals at each of our properties have been increased this year. The number of rooms in our hotel properties increased from 349 at the end of FY 2004 to 380 at the end of FY 2005 owing to the commencement of operations in Royal Orchid Metropole. The change in occupancy rates and ARR at individual hotel properties is given below.

Property	Occupancy (%)		ARR (Rs)	
	FY 2004	FY 2005	FY 2004	FY 2005
Hotel Royal Orchid	79.5%	86.0%	3,352	5,223
Royal Orchid Central	78.2%	86.2%	2,200	3,544
Royal Orchid Harsha	80.1%	75.2%	1,115	1,902
Royal Orchid Metropole *	NA	39.0%	NA	3,827

* Royal Orchid Metropole commenced operations in October, 2004.

Food and Beverage Revenue

Our food and beverage revenues increased by 14.37% from Rs. 102.75 million in FY 2004 to Rs. 117.52 million in FY 2005. This increase can be attributed to the increase in business from our room guests which is evident from the increase in occupancy rates. As a part of our constant endeavour to upgrade our food and beverage we replaced one of the then existing coffee shops at Royal Orchid Central with a new upgraded coffee shop called 'Pinxx'.

Other Service Charges

The other service charges revenue increased marginally by 0.67% from Rs. 16.45 million in FY 2004 to Rs. 16.56 million in FY 2005.

Expenditure

Our total expenditure increased by 32.63% from Rs. 237.02 million in FY 2004 to Rs. 314.36 million in FY 2005.

Food & Beverage Costs

Our food and beverage expenses increased by 2.48% from Rs. 36.32 million in FY 2004 to Rs. 37.22 million in FY 2005. Our food and beverage costs as a percentage of food and beverage revenue has come down from 35.35% in FY 2004 to 31.67% in FY 2005. Improvement in food and beverage operations and reduction in wastage has enabled us to control expenses involved in food and beverage operations.

Employee Costs

Employee costs increased by 38.17% from Rs. 34.37 million to Rs. 47.49 million. There have been a number of recruitments at senior levels in our Company, which accounts for the increase in employee cost. However employee cost as a percentage of total revenue reduced marginally from 9.53% in FY 2004 to 8.24% in FY 2005.

Other Operating Expenses

Our other operating expenses increased by 27.21% from Rs. 109.16 million in FY 2004 to Rs. 138.86 million in FY 2005. Other operating expenses as a percentage of total revenue reduced from 30.25% in FY 2004 to 24.09% in FY 2005. Other operating expenses are less variable with the room revenues and are more related to the expansion of property.

The general and administrative expenses have increased by 58.91% from Rs. 57.07 million in FY 2004 to Rs. 90.69 million in FY 2005. General and administrative expenses as a percentage of total revenues decreased from 15.82% to 15.74% in FY 2005.

Earnings before Interest, Depreciation, Amortization and Tax (EBITDA)

The EBITDA has recorded a 111.64% increase from Rs. 123.78 million in FY 2004 to Rs. 261.97 in FY 2005. The EBITDA margin for the period has increased to 45.45% as compared to 34.31% in the previous financial year. The increase in the EBITDA margin has been driven by the increase in room revenues brought about by the increase in the occupancies and our ability to control the operating costs.

Depreciation and Interest Cost

The depreciation increased by 99.29% from Rs. 11.19 million to Rs. 22.32 million in FY 2005. Most of the increase in depreciation was on account of the renovation process which was partially completed in Royal Orchid Central. Addition of fixed assets (furniture, fixtures etc.) at Metropole also added to depreciation

The interest cost decreased from Rs. 29.61 million in FY 2004 to Rs. 24.80 million in FY 2005. Decrease in interest rate is due to swapping of the higher interest rate HUDCO loan with lower interest rate State Bank of Hyderabad loan. A portion of the loan was also repaid and hence the total loan amount also came down.

Profit Before Tax and Minority Interest

Our net profit before tax has increased by 158.84% from Rs. 82.98 million in FY 2004 to Rs. 214.87 million in FY 2005. The profit before tax as a percentage of total revenue has increased to 37.28% from 23.00% last financial year. The increase in the margins can be attributed to the increase in EBITDA margins and a reduction in the interest cost.

Taxation

The total tax paid by our Company including the deferred tax increased to Rs. 70.6 million from Rs. 32.2 million the previous year. Our company got a tax concession in FY 2004 for foreign income at hotels which was not applicable in FY 2005. Further carry forward losses were applicable in FY 2004 which reduced the tax incidence in that fiscal year.

Adjusted Net Profit

Our Adjusted net profit has increased by 198.69% from Rs. 43.48 million in FY 2004 to Rs. 129.87 million in FY 2005. The net profit margin for FY 2005 was 22.53% as compared to 12.05% in FY 2004. The increase in net profit can be attributed to the increase in operating profitability of the Company.

Fixed Assets

The net fixed assets increased by 43.28% from Rs. 186.77 million in FY 2004 to Rs. 267.62 million in FY 2005. The increase in fixed assets was due to renovation at Royal Orchid Central and Royal Orchid Metropole.

There was capital work in progress of Rs. 101.75 million which primarily comprised of the partially completed expansion in Hotel Royal Orchid.

Networth

The consolidated networth of our Company increased to Rs. 281.99 million in FY 2005 from Rs. 131.97 million in FY 2004.

Results of operations for the year ended March 31, 2004 compared to year ended March 31, 2003

Income from Operations

Our total income from operations increased by 141.12% from Rs. 145.20 million in FY 2003 to Rs. 350.10 million in FY 2004.

Room Revenue

Our room revenues increased by 224.12 % from Rs. 71.24 million in FY 2003 to Rs. 230.90 million in FY 2004. The primary reason for this high growth in revenues has been the initiation of operations of Royal Orchid Central through our subsidiary Icon Hospitality Private Limited. All the 130 rooms in Royal Orchid Central started operations and contributed to the increase in room revenues. In FY 2004, 39 additional rooms started operations in Hotel Royal Orchid. There was also an increase in the occupancies in Royal Orchid Harsha and Hotel Royal Orchid. Hotel Royal Orchid also had an increase of 44.3% increase in its ARR. The change in occupancy rates and ARR at individual hotel properties is given below. The tariffs remained unchanged to obtain a higher occupancy rate which resulted in a marginal reduction in the ARRs

Property	Occupancy (%)		ARR (Rs)	
	FY 2003	FY 2004	FY 2003	FY 2004
Hotel Royal Orchid	70.0%	79.5%	2,323	3,352
Royal Orchid Central*	NA	78.2%	NA	2,200
Royal Orchid Harsha	67.5%	80.1%	1,151	1,115

* Royal Orchid Central commenced operations in April 2003.

Food and Beverage Revenue

Our food and beverage revenues increased by 66.67% from Rs. 61.63 million in FY 2003 to Rs. 102.75 million in FY 2004. The increase in food and beverage revenues is primarily due to the addition of food and beverage outlets in Royal Orchid Central. There was also increase in the number of guests through addition of rooms in Hotel Royal Orchid and increase in occupancies in Hotel Royal Orchid and Royal Orchid Harsha.

Other Service Charges

The other service charges revenue increased by 33.23% from Rs. 12.33 million in FY 2003 to Rs. 16.43 million in FY 2004. The increase in income from other service charges can be attributed to the increase in occupancy levels at our hotels

Expenditure

Our total expenditure increased from by 134.35% from Rs 100.80 million in FY 2003 to Rs. 236.22 million in FY 2004.

Food & Beverage Costs

Our food and beverage expenses increased by 98.69% from Rs. 18.28 million in FY 2003 to Rs. 36.32 million in FY 2004. Our food and beverage costs as a percentage of food and beverage revenue has increased from 29.66% in FY 2003 to 35.35% in FY 2004. Food and beverage operations were commenced in Royal Orchid Central where food and beverage is priced lower than the outlets in Hotel Royal Orchid. This explains the increase in food and beverage costs as a percentage of food and beverage revenue.

Employee Costs

Employee costs increased by 76.62% from Rs. 19.46 million to Rs. 34.37 million. However employee cost as a percentage of total revenue reduced from 12.88% in FY 2003 to 9.53% in FY 2004. The increase in employee cost is due to the commencement of operations in Royal Orchid Central.

Other Operating Expenses

Our other operating expenses increased by 200% from Rs. 36.36 million in FY 2003 to Rs. 109.16 million in FY 2004. Other operating expenses as a percentage of total revenue increased from 24.07% in FY 2003 to 30.25% in FY 2004. The increase in operating expenses can be attributed largely to the lease rentals paid for Royal Orchid Central which commenced operations in FY 2004.

The general and administrative expenses have increased by 113.83% from Rs. 26.69 million in FY 2003 to Rs. 57.07 million in FY 2004. However, general and administrative expenses as a percentage of total revenues reduced marginally from 17.67% to 15.82% in the last year.

Earnings before Interest, Depreciation, Amortization and Tax (EBITDA)

The EBITDA has recorded a 146.23% increase from Rs. 50.27 million in FY 2003 to Rs. 123.78 in FY 2004. The increase in EBITDA can also be attributed to the addition of revenue from Royal Orchid Central. The EBITDA margin for the period has increased marginally to 34.31% as compared to 33.28% in the previous financial year.

Depreciation and Interest Cost

The depreciation increased by 18.41% from Rs. 9.43 million to Rs. 11.19 million in FY 2004. Increase in depreciation was on account of large number of items of value less than Rs. 5000 which were fully depreciated in the same year

The interest cost decreased from Rs. 36.31 million in FY 2003 to Rs. 29.61 million in FY 2004. The reduction in interest was partly due to swapping of higher interest loans with lower interest loans from HUDCO.

Profit before Tax and Minority Interest

Our net profit before tax has increased from Rs. 4.51 million in FY 2003 to Rs. 82.98 million in FY 2004. The profit before tax as a percentage of total revenue has increased to 23% from 2.99% last financial year. The increase in room rentals and occupancy rates have contributed the increase in the margins

Taxation

The tax paid for FY 2004 increased to Rs. 32.2 million from Rs. 2.12 million paid in FY 2003. Icon Hospitality Private Limited which commenced operations in FY 2004 was subject to full taxation which increased the tax payout.

Adjusted Net Profit

Our Adjusted net profit has increased from Rs. 2.39 million in FY 2003 to Rs. 43.48 million in FY 2004. The net profit margin for FY 2004 was 12.05% as compared to 1.58% in FY 2003. The increase in net profit despite the increase in effective tax rate can be attributed to the increase in operating profitability of the Company.

Fixed Assets

The net fixed assets marginally reduced from Rs. 186.96 million in FY 2003 to Rs. 186.77 million in FY 2004.

Networth

The consolidated networth of our Company increased to Rs. 131.97 million in FY 2004 from Rs. 77.28 million in FY 2003.

Results of operations for the year ended March 31, 2003 compared to year ended March 31, 2002

Income from Operations

Our total income from operations increased by 159.61% from Rs. 55.93 million in FY 2002 to Rs. 145.20 million in FY 2003.

Room Revenue

Our room revenues increased by 164.83% from Rs. 26.90 million in FY 2003 to Rs. 71.24 million in FY 2004. The increase in revenues is due to the full scale operationalisation of our flagship property Hotel Royal Orchid which started operations in March 2001. Ten additional rooms were added in Hotel Royal Orchid in February 2003. There was also an increase in the occupancies in Royal Orchid Harsha and Hotel Royal Orchid. Hotel Royal Orchid also had an increase of 8.4% in its ARR. The change in occupancy rates and ARR at individual hotel properties is given below.

Property	Occupancy (%)		ARR (Rs)	
	FY 2002	FY 2003	FY 2002	FY 2003
Hotel Royal Orchid	71.27%	70.0%	2,146	2,323
Royal Orchid Harsha*	---	67.5%	---	1,151

*Harsha commenced in July 2002,

Food and Beverage Revenue

Our food and beverage revenues increased by 140.74% from Rs. 25.60 million in FY 2002 to Rs. 61.63 million in FY 2003. The increase in food and beverage revenues is primarily due to the addition of Royal Orchid Harsha and full scale operationalisation of food and beverage outlets in Hotel Royal Orchid

Other Service Charges

The other service charges revenue increased by 259.48% from Rs. 3.43 million in FY 2002 to Rs. 12.33 million in FY 2003. This was largely on account of commencing full scale operations at Hotel Royal Orchid and inclusion of Royal Orchid Harsha.

Expenditure

Our total expenditure increased by 105.46% from Rs. 49.06 million in FY 2002 to Rs. 100.80 million in FY 2003.

Food & Beverage Costs

Our food and beverage expenses increased by 91.01% from Rs. 9.57 million in FY 2002 to Rs. 18.28 million in FY 2003. Our food and beverage costs as a percentage of food and beverage revenue has reduced from 37.38% in FY 2002 to 29.66% in FY 2003. The stabilisation of our food and beverage operations in FY 2003 has resulted in reduction in costs.

Employee Costs

Employee costs increased by 86.58% from Rs. 10.43 million to Rs. 19.46 million. The increase in employee cost was due to the lease of Royal Orchid Harsha and the additional recruitment for Hotel Royal Orchid. However employee cost as a percentage of total revenue reduced from 18.47% in FY 2002 to 12.88% in FY 2003.

Other Operating Expenses

Our other operating expenses increased by 158.42% from Rs. 14.07 million in FY 2002 to Rs. 36.36 million in FY 2003. Other operating expenses as a percentage of total revenue reduced from 24.91% in FY 2002 to

24.07% in FY 2003. The addition of new rooms in Hotel Royal Orchid and the lease of Royal Orchid Harsha have lead to an increase in the other operating expenses

The general and administrative expenses have increased by 78.17% from Rs. 14.98 million in FY 2002 to Rs. 26.69 million in FY 2003. However, general and administrative expenses as a percentage of total revenues reduced from 26.52% to 17.67% in the FY 2002.

Earnings before Interest, Depreciation, Amortization and Tax (EBITDA)

The EBITDA has recorded an increase from Rs. 7.42 million in FY 2002 to Rs. 50.27 in FY 2003. The increase in EBITDA can be attributed primarily to the increase in operations at Hotel Royal Orchid and commencing operations at Royal Orchid Harsha which came into the fold of Royal Orchid Hotels Limited from July 2002. The EBITDA margin for the period has increased to 33.28% as compared to 13.14% in the previous financial year.

Depreciation and Interest Cost

The depreciation reduced marginally from Rs. 9.6 million in FY 2002 to Rs. 9.45 million in FY 2003

The interest cost marginally increased from Rs. 27.74 million in FY 2002 to Rs. 36.31 million in FY 2003.

Profit before Tax and Minority Interest

Our net profit before tax has increased from loss of Rs. 29.92 million in FY 2002 to profit of Rs. 4.51 million in FY 2003. The profit before tax as a percentage of total revenue was 2.99% in FY 2003. The improvements in operating profitability have enabled us to make positive profit before tax for the first time.

Taxation

The tax paid by our Company in FY 2003 was Rs. 2.12 million.

Adjusted Net Profit

Our Adjusted net profit has increased from a loss of Rs. 18.67 million in FY 2002 to profit of Rs. 2.39 million in FY 2003. The net profit margin for FY 2003 was 1.58 %.

Fixed Assets

The net fixed assets marginally reduced from Rs. 192.95 million in FY 2002 to Rs. 186.96 million in FY 2003.

Networth

The consolidated networth of our Company increased to Rs. 77.28 million in FY 2003 from Rs. 74.89 million in FY 2002.

Information regarding:

Unusual or infrequent events or transactions

Except as described elsewhere in this Draft Red Herring Prospectus, there have been no events or transactions to our knowledge which may be described as “unusual” or “infrequent”.

Significant economic changes that materially affected or are likely to affect income from continuing operations

Volatility in foreign exchange rates may have an effect on our revenues from foreign travellers. We believe that barring this factor, there are no significant economic changes that materially affect or likely to affect income from continuing Operations.

Known trends or uncertainties

Our ARR and occupancy is dependent on the demand and supply of hotel rooms at the respective centres where our hotels are located. Several new hotel properties are coming up or are expected to become operational in the near future at these locations and will thus influence the supply of hotel rooms and consequently the ARR and occupancy.

Future relationship between costs and revenue

We are continuously working to create efficient processes and systems in our hotel operations aimed at cost control and reduction. We expect to continue this effort of improving our processes and methodologies for setting up new hotel properties and operating our hotels. Other than as described in this section in this Draft Red Herring Prospectus, to the best of our knowledge, there are no known factors, which will affect the future relationship between the costs and revenue.

Extent to which material increase in net sales or revenue are due to increased sales volume, introduction of new products or services or increased sales prices

As mentioned in the Management Discussion and Analysis we have been increased our capacities in terms of the rooms available as well as our food and beverage outlets. Our ARRs have also been increasing over a period of time. These factors have contributed to increase in our revenues.

Total turnover of each major industry segment in which the issuer company operated

Our Company is engaged only in the hotel business which is the only industry segment in which our Company operates

Status of any publicly announced new products or business segment

We have not announced any new products or business segments

Extent to which the business is seasonal

Seasonal variations in occupancy and room rentals affect our results of operations. We generally experience lower occupancy during the first half (April to September) of each fiscal in comparison to that experienced in the second half of the fiscal year (October to March). Further demand for hotel rooms also goes up during specific events such as the Air Show in Bangalore, IT conferences and goes down during holiday seasons in Diwali, New year etc.

Over dependence on Single supplier/ Customer

We cater to a wide customer base including international and domestic business and leisure travellers. We also cater to crews of airlines. The threat from excessive dependence on a single customer is not significant as the customer base is well diversified as indicated in the table below. We source our raw materials from a number of suppliers and are not under threat from excessive dependence on any single supplier.

Particulars	FY 2003	FY 2004	FY 2005
Top Customer	3.31%	3.61%	3.90%
Top 5 Customers	11.3%	10.55%	11.76%
Top 10 Customers	15.94%	16.40%	18.49%

Competitive conditions

Please refer to the “Our Business” section on Page 56 for details of competition.

Details of material developments after the date of last balance sheet

Except as stated elsewhere in this Draft Red Herring Prospectus, to our knowledge no circumstances have arisen since the date of the last financial statements as disclosed in this Draft Red Herring Prospectus which

materially and adversely affects or is likely to affect, the operations or profitability of the Company, or the value of our assets or our ability to pay our material liabilities within the next twelve months.

Except as stated elsewhere in this Draft Red Herring Prospectus, there is no subsequent development after the date of the Auditor's Report which we believe is expected to have a material impact on the reserves, profits, earnings per share and book value of the Company.

OUTSTANDING LITIGATION

Details of Outstanding Litigations:

Except as described below:

- i. There is no outstanding or pending litigation, suits or criminal or civil prosecutions, proceedings initiated for any offence or litigation for tax liabilities against the Company, Promoters, Directors or Promoter Group companies;
- ii. There are no defaults, non payments or overdues of statutory dues, institutional or bank dues or dues towards holders of debentures, bonds and fixed deposits other than unclaimed liabilities of the Company, the Promoters, the Directors and Promoter Group companies;

that would have a material adverse effect on the business of the Company.

A. Cases filed against the Company:

SL. No.	Details of the Case			Brief Facts	Status
	Suit/Case No. filed before:	Date of filing	Filed by (Petitioner/Appellant)		
1	OS – 5643/98 City Civil Court, Bangalore	20/07/98	Dr. Gurumurthy	Karnataka State Tourism Development Corporation (KSTDC) had acquired land bearing Sy. No. 162/1 & 162/2 adjacent to Airport Road and leased the same to the Company. The Petitioner who was in possession of the property prior to acquisition has challenged the acquisition of land by KSTDC and made the Company a party to the suit.	Pending with the City Civil Court at Bangalore.
2	MFA No 245/05 connected with	03/01/05	Mr. Peter Varghese & others,	The Civil Court had by its order dated December 18, 2004 in O.S. 17215/ 2004 restrained the Appellants from entering upon and interfering with possession of the property situated at Survey Nos. 157/1 to 157 /4. Aggrieved by the said order, the Appellants have preferred this Miscellaneous First Appeal before the High Court of Karnataka.	Pending before the High Court at Bangalore
	MFA No.11348/05	01/02/05	Mrs. Eramma & Other		
3	OS – 3240/95 City Civil Court	19/05/95	Mrs. Gowramma	Karnataka State Tourism Development Corporation (KSTDC) had acquired land bearing Sy. No. 161 adjacent to Airport Road and leased the same to the	Final Orders are pending with the City Civil Court at Bangalore.

				Company. The Petitioner who was in possession of the property prior to acquisition has challenged the acquisition of land by KSTDC and made the Company a party to the suit. The Company has succeeded in obtaining an order of injunction restraining the petitioners from interfering in the peaceful possession and enjoyment of the property.	
4	ID No. 190/1999 Labour Court	11/11/2004	T.A. Kishan	The employee was dismissed from service. The employee has claimed reinstatement of service along with back wages	Matter Pending with labour court.
5	Employees State Insurance Corporation	23/02/2005	ESI Corporation	The issue involved in the matter is as regards the payment of contribution for the period 2001-02 and 2002-03. The Claim amount involved in the matter is Rs. 59,29,893/-	Matter Pending with labour department.

We have received letter dated June 6, 2005 bearing reference no. KAR.INS V/KRO/268/53-18218 from the Regional Office of the Employees State Insurance Corporation requesting us to recalculate the contributions due in respect of the period of April 2001 to March 2003. The same is allegedly payable on wages paid for Security employees deputed by three different security agencies having separate ESI codes. The said letter further requested that we keep the relevant records ready for inspection. Pursuant to the same, we have by our letter dated June 23, 2005 informed the Deputy Director of the Employees State Insurance Corporation, Regional Office that all relevant records are available for inspection. The amount of liability, if any, will be ascertained only upon completion of the inspection. The above matter may be regarded as a potential litigation that may arise.

B. Cases filed by the Company:

SL. No.	Details of the Case			Brief Facts	Status	Claim
	Suit/Case No. filed before:	Date of filing	Filed against			
1	PCR No. 2099/2005 Court of the XIV Additional Chief Metropolitan Magistrate at Bangalore		M/s Infotech Network (India) Private Limited and Others	The Respondents issued two cheques, amounting to Rs. 2,36,081. The same were dishonoured. Subsequently, we filed a complaint under Section 138 of the Negotiable Instruments Act, 1881	Pending Magistrate	Rs. 2,36,081/-
2	Joint Commissioner of Commercial Taxes (Appeals)		Assistant Commissioner of Commercial Taxes (Luxury Tax)	The Assistant Commissioner of Commercial Taxes (Luxury Tax) by its order has levied an	Matter pending with the Joint Commissioner of Commercial	Relief Claimed is Rs. 1,09,776/-

				amount of Rs 2,36,558/- on banquet income. The order is in respect of the assessment years 2002-03 and 2003 -04. As such, we have preferred an appeal to the JCCT (Appeals) seeking for a relief of Rs. 1,09,776/-	Taxes.	
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C. Cases filed against the Promoters:

SL. No.	Details of the Case			Brief Facts	Status
	Suit/Case No. filed before:	Date of filing	Filed by		
1	Criminal case no. PCR 147/2003 against Mr. Chander K. Baljee and others.	29/09/03	Shashi Vagale	Mr. Vagale was appointed as the Chief Operating Officer of Baljees Hotels and Real Estates Private Limited under letter of appointment dated July 12, 2003. Subsequently, differences arose between the company and Mr. Vagale. As a result, Mr. Vagale's employment was terminated. Mr. Vagale then filed a criminal complaint u/s 380 of Indian Penal Code, 1872 against the Promoters and directors and other officers of the company alleging theft. The Chief Metropolitan Magistrate, Bangalore City issued a summons against Chander K. Baljee. Mr. Baljee then filed a Criminal petition No. 4114/2003 before the Karnataka High Court and has obtained a stay order dated 6/4/2004 against the summons, pending disposal of the petition.	Pending
2.	Income Tax Appellate Tribunal, Karnataka	Appeal No. 3790 of 2004	DCIT, CircleII(1), Bangalore vs. Baljees Hotels and Real Estates Private Limited	Baljees Hotels and Real Estates Private Limited incurred expenditure on renovation of Tiger Trail restaurant. The said premises has been taken on lease by Baljee Hotels and Real Estates Private Limited. The expenditure incurred was treated as revenue expenditure for the	The Appellant filed the Memorandum of Appeal and the Respondent has filed its Memorandum of Cross objections in the matter

				assessment year 2001 -02. However, the Assessing Officer adopted the view that the expenditure was capital in nature. The income tax liability in dispute is Rs.1.71 million. Baljee Hotels and Real Estates Private Limited, hence preferred an appeal to the Commissioner of Income Tax (Appeals). CIT (A) partly allowed the appeal. As such the the Deputy Commissioner of Income Tax, CircleII(1), Bangalore has preferred this appeal before the Income Tax Appellate Tribunal, Karnataka.	
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D. Important Legal Notices against the Promoters/Promoter Group:

SL. No.	Details of the Notice		Brief Facts	Status	Claim
	Issued against	Date of Issue			
1.	Shashi Vagale against Chander K Baljee & Sunita Baljee.	Sep 30, 2003	Shashi Vagale was the Chief Operating Officer, Baljees Hotels and Real Estates Limited. On his termination by the employer company, he alleged defamation and loss of personal effects against Chander K Baljee and Sunita Baljee. Further, he has claimed penal and actual damages.	Though more than two years have passed no civil suit has been instituted on this cause of action or notice.	Rs. 84.00 lakhs: damages. (penal damages of Rs. 50.00 lakhs for defamation and Rs. 34.00 actual damages for loss of personal effects).

E. Cases filed by the Promoters

SL. No.	Details of the Case			Brief Facts	Status	Prayer
	Suit/Case No. filed before:	Date of filing	Filed by			
1	Crl. P No. 4114/2003	19/11/2003	Mr. Chander K. Baljee and Mrs. Sunita Baljee	Petition seeking quashing of the private complaint filed by Shashi Vagale and specifically detailed out under Item 1.in Section C above.	The High Court has admitted the petition and has granted stay of proceedings before the Metropolitan Magistrate and the warrant issued.	Quashing under Sec. 482 of the Criminal Procedure Code, 1973, of the private complaint.

F. Cases filed against the Subsidiaries and Group Companies:

SL.	Details of the Case	Brief Facts	Status
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No.	Suit/Case No. filed before:	Date of filing	Parties		
1	Royal Orchid Central				
	SLP – 8672/02 Supreme Court	22.04/2002	Industrial Credit and Development Syndicate vs. Ms. Ameena Moosa and others	Writ petitions were filed before the High Court of Karnataka seeking that a building complex known as Manipal Center be demolished in the event that the same is found to be in violation of the building laws. Hotel Central Park, now known as Royal Orchid Central, is situated in the aforesaid building complex and has been impleaded in the matter. The learned Single Judge of the Hon'ble High Court directed the Bangalore Mahanagara Palike to inspect the building and to initiate necessary action in accordance with law. Aggrieved by the decision, all parties of the matter filed writ appeals before the Division Bench of the Hon'ble High Court of Karnataka. The Learned Division Bench passed an interim order directing that that the Commissioner, Bangalore City Corporation initiate action under section 321 (1) of the Karnataka Municipal Corporations Act, 1976. Pursuant to the same, the Appellants filed Special Leave Petition No. 8672/ 2002 before the Hon'ble Supreme Court of India under Article 136 of the Constitution of India against the said interim order. The Supreme Court directed that the High Court dispose of the matter expeditiously and give quietus to the matter. Subsequently the learned Division Bench of the Karnataka High Court by its final order dated September 21, 2003 while dismissing the writ petition of the original petitioners, allowed	The Special Leave Petition No. 8672/ 2002 is presently pending before the Hon'ble Supreme Court of India.

				the Appellants writ petition.	
2	Icon Hospitality Private Limited				
	Employees State Insurance Corporation	KAR.INS V/ 53-19443-101	30/06/2005	The issue involved in the matter is as regards the payment of contribution for the period April 2002 to July 2004. The Claim amounts are Rs. 80, 594/- and Rs. 1,781.	Matter pending
		KAR.INS V/ 53-19443-101	27/05/2005		

G. Cases filed by the Subsidiaries and Group Companies:

None

H. Litigations against the Company's Directors

Chander K. Baljee

For details of litigation against Mr. Chander K. Baljee, see paragraph C above titled "Cases against our Promoters" and paragraph D above titled "Important legal notices against Promoters/ Promoter Group".

Jaithirth Rao

A civil suit (Original Suit number 124/2005) regarding declaration of title to land has been filed by Mr. Poojappa against Mr. Jaithirth Rao as is pending in the Court of the Civil Judge (Junior Division), Chikkaballapur, Karnataka.

In addition to the above the following criminal complaints have been filed against Mr. Jaithirth Rao in his capacity as director of Cadbury India Limited:

	Case No.	Location	Litigation Against	Summons Received	Status
1.	9/2003 and 10/2003	Pune	Mr. Jaithirth Rao(in the capacity of director of Cadbury India Limited) and others	No	Petition filed before the Hon'ble Bombay High Court for quashing of the Complaint admitted and matter before the subordinate courts stayed until disposal of the said Petition.
2.	66/ 2003 and 67/2003	Dapoli, Ratnagiri	Mr. Jaithirth Rao(in the capacity of director of Cadbury India Limited) and others	Yes	Petition filed before the Hon'ble Bombay High Court for quashing of the Complaint admitted and matter before the subordinate courts stayed until disposal of the said Petition.
3.	131/2003	Khed, Ratnagiri	Mr. Jaithirth Rao(in the capacity of director of Cadbury India Limited) and others	No	Yet to appear
4.	534/S/03 and 536/S/03	Mumbai	Mr. Jaithirth Rao(in the capacity of director of Cadbury India Limited) and others	Yes	Bail filed on February 13, 2004. Quashing Petition to be filed shortly.
5.	Prosecution for an alleged violation of the labeling provisions of a product sample.		Mr. Jaithirth Rao(in the capacity of director of Cadbury India Limited)		A review petition has been filed before the jurisdictional High Court seeking a quashing of the said criminal proceedings. The same is pending.

All the matters listed in 1 to 4 hereinabove have been instituted under the provisions of the Prevention of Food Adulteration Act, 1954.

Further, Mr. Jaithirth Rao has received a show cause notice dated September 18, 2004, in his capacity as a director of Cadbury India Limited, from the Joint Director General of Foreign Trade(Enforcement) regarding certain import and export obligations of Cadbury India Limited.

LICENSES AND APPROVALS

The Company has obtained all necessary consents, licenses, permissions and approvals from the concerned Government authorities / private certification bodies, which are required in order to carry on the business of the Company in compliance with the laws in force.

The list of approvals obtained by us are arranged in the following order:

- (i) The list of approvals obtained by the Company,
- (ii) The list of consents / approvals / licenses obtained in the name of Hotel Royal Orchid,
- (iii) The list of consents / approvals / licenses obtained in the name of Royal Orchid Central,
- (iv) The list of consents / approvals / licenses obtained in the name of Royal Orchid Harsha, and
- (v) The list of consents / approvals / licenses obtained in the name of Royal Orchid Metropole.

The same are provided in the tables below:

(i) **The list of approvals obtained by the Company are detailed in the table below:**

Sl. No.	Act under which the license/approval is issued	Issuing Authority	Details of the license / approval
A. Approval from Central and State Tax Authorities			
1	Income Tax Act, 1961 – Section 139 A	Director of Income Tax	Permanent Account Number (PAN): AABCR0111M
2	Income Tax Act, 1961 - Section 203	National Securities Depository Limited	TAN No.: BLRR03549A
3	Karnataka Tax On Professions, Trades, Calling And Employments Act 1976 – Rule 3 (1) of the rules made thereunder	Assistant Professional Tax Officer, Bangalore.	Certificate No. 2065000803.0 dated May 21, 1990, issued by the Asst. Professional Tax officer, IV Circle, Bangalore 560 020
B. Labour related approvals			
4	Employees Provident Funds and Miscellaneous Provisions Funds Act, 1952 – Section 1 (3) (b)	Regional Provident Fund Commissioner	Employees Provident Fund Code: KN/35119
5	Employees State Insurance Act, 1948 - Section 2A	E.S.I.C	Employees State Insurance Code: 53-18218
6	Contract Labour (R & A) Act, 1970	Office of the Assistant Labour Commissioner & Registering officer.	Principal Employer Registration Number: ALCB-4/CLA/P-95/2003-04. Date of issue: January 5, 2004. Amended & approved w.e.f: February 21, 2005

- (ii) The list of consents / approvals / licenses obtained in the name of HOTEL ROYAL ORCHID are listed below:

Sl. No.	Act under which the license/approval is issued	Issuing Authority	Details of the license / approval
A. Licenses / approvals specific to the business carried on at Royal Orchid			
1	Joint Director Of Town Planning, Bangalore Mahanagara Palike		Partial Occupation Certificate for basement, Ground Floor, mezzanine, First and Second floor of Hotel Royal Orchid. No: LP175/99-00 Dated: March 29, 2001
2	Joint Director Of Town Planning, Bangalore Mahanagara Palike		Partial Occupation Certificate for the 3 rd and 4 th floor of the building in which the Royal Orchid Hotel is operated. No: LP175/99-00 Dated: July 23, 2003
3	Regional Director & Convenor, HRACC (South), Government of India, Southern Regional Office		Details of the Order: Star Classification Order. Classification: 3 Star Hotel Ref: Indtour/ Chennai/ HRACC/ 2002 (KAR)/ 237 Issued on: February 4, 2003. Valid upto: February 4, 2007.
4	Karnataka Municipal Corporation Act, 1976 - Section 353. Details: Trade license to run a restaurant.	Commissioner, Bangalore Mahanagara Palike	(i) Ref No.: 2004- 073- 01- 32C- 01- 003158. Issued on: April 5, 2004 Renewed upto: March 31, 2009 (ii) Ref No.: 2004- 073- 01- 32C- 01- 003159. Issued on: April 5, 2004 Renewed upto: March 31, 2009
5	Karnataka Municipal Corporation Act, 1976 - Section 353.	Commissioner, Bangalore Mahanagara Palike	Trade license to install an air condition pump and other gadgets in the restaurant Ref No.: 2004-073 - 02-033 -05- 003236 Issued on: April 5, 2004. Renewed upto: March 31, 2009.
6	Karnataka Prevention of Food	Chief Health Officer, Local (Health)	License to sell food, alcoholic and non alcoholic beverages

	Adulteration Rules, 1986	Authority, Bangalore	Date of issue: May 12, 2005. Ref No.: JBN / 358 / 05-06. Valid upto: March 31, 2006
7	Air (Prevention & Control of Pollution) Act, 1981	Environment Officer, Karnataka State Pollution Control Board	Ref no: 70__/KSPCB/EO/BNG-C-1/DEO/INRNo:138465/2005-06/916 Date of issue: July 8, 2005. Renewed on: September 27, 2005 Valid upto: December 31, 2005
8	Water (Prevention & Control of Pollution) Act, 1974	Environment Officer, Karnataka State Pollution Control Board	Ref no: 63/ KSPCB/RO/BNG-CITY-1/DEO /INRNo :138456/2005-06/916 Date of issue: July 8, 2005. Renewed on: September 27, 2005 Valid upto: December 31, 2005

B. Approval from Central and State Tax Authorities

9	Service Tax Act, 1994 - Section 69	Office of the Commissioner of Service Tax, Department of Revenue	Service Tax Registration Number: MAK/BG-I/314/Royal Orchid/2003 Service Tax Code Number: AABCR0111MST001
10	Karnataka Sales Tax Act, 1957	Assistant Commissioner of Commercial Taxes, Bangalore	License No. 13409657/2000-01 Date of Issue: May 22, 2000
11	Karnataka Excise Act, 1965	Deputy Commissioner, Bangalore Urban District	(i) License for sale of liquor. Register No.: EXE/01/23/01/CL-6(A)/2005-06 Valid upto: June 30, 2006 (ii) License for the retail sale of bulk beer in the hotel Register No.: EXE/1/23/2/RVB/2005-06 Valid upto: June 30, 2006
12	Karnataka Tax on Luxuries (Hotels and Lodging Houses) Act, 1979	Luxury Tax Officer, Assistant Commissioner of Commercial Taxes, Luxury Tax, Bangalore	Mr. Chander K. Baljee Registration Certificate No.: ACCT.LT.II.284/2001-02 (New No.: LO2LO-284) Date of issue: May 4, 2001.

C. Labour related approvals

13	Karnataka Shops And Commercial	Inspector, Karnataka Shops	Registered
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	Establishments Act, 1961 – Section 4.	& Commercial Establishments	Date of Registration: July 5, 2001 Valid upto: December 31, 2005.
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The list of pending consents / approvals / licenses in the name of ROYAL ORCHID HOTEL are listed below

Sl. No.	Act under which the license/approval is issued	Issuing Authority	Details of the license / approval
A. Licenses / approvals specific to the business carried on at Royal Orchid			
1	Joint Director Of Town Planning, Bangalore Mahanagara Palike		We have by our letter dated March 16, 2004 to the Commissioner, Bangalore Mahanagara Palike requested for issuance of Occupation Certificate for the Fifth Floor of the Hotel

(iii) The list of consents / approvals / licenses obtained in the name of ROYAL ORCHID CENTRAL are listed below:

Sl. No.	Act under which the license/approval is issued	Issuing Authority	Issued to and details of the license / approval
A. Licenses / approvals specific to the business carried on at Royal Orchid Central			
1	Karnataka Municipal Corporation Act, 1976 - Section 353.	Commissioner, Bangalore Mahanagara Palike	Trade license to provide the facilities of lodging and boarding Ref No.: 2004-081 – 01-32A -01- 000728 Issued on: April 2, 2004. Renewed upto: March 31, 2009
2	Karnataka Prevention of Food Adulteration Rules, 1986	Chief Health Officer, Local (Health) Authority, Bangalore	License to sell food products, alcoholic and non alcoholic beverages Date of issue: April 20, 2005. Ref No.: BN / 343 / 05-06. Valid upto: March 31, 2006
3	Indian Electricity Rules, 1956	Office of the Deputy Electrical Inspector, Bangalore.	Approval to use neon sign installation in the hotel. Electrical Fitness Certificate No. DEI(N)/369/99-2000. Date of Issue: May 14, 1999.
4	Air (Prevention and Control of Pollution) Act, 1981	Environmental Officer, Karnataka State Pollution Control Board	Ref No: 297/KSPBC/BNG-C2)/AEO-1/APC/InrNo:129641/2004-05/4099 Date of issue: January 10, 2005. Valid upto: December 31, 2014.

5	Water (Prevention and Control of Pollution) Act, 1974 – Section 25	Environmental Officer, Karnataka State Pollution Control Board	Ref no: 284/KSPBC/BNG-C2/AEO-1/WPC/InrNo:129641/2004-05/4098 Date of issue: January 10, 2005. Valid upto: December 31, 2014
6.	Dy. Director of Town Planning, Mahanagara Palike Office, Bangalore	Occupation Certificate for Royal Orchid Central No: LP.532/85-86 Dated October 8, 1992.	
B. Approval from Central and State Tax Authorities			
7	Service Tax Act, 1994 - Section 69	Office of the Commissioner of Service Tax, Department of Revenue	Service Tax Registration Number: (CVN) (MAK) (ODC) (EVS) (TOU)/AABCI0850QST001. Service Tax Code Number: AABCI0850QST001
8	Karnataka Sales Tax Act, 1957	Assistant Commissioner of Commercial Taxes, Bangalore	License No. 04132634
9	Karnataka Tax On Professions, Trades, Calling And Employments Act 1976 – Rule 3 (1) of the rules made thereunder.	Assistant Professional Tax Officer, Bangalore.	Certificate bearing reference No. ACCT/LT-1/371 dated May 6, 2003, issued by the Asst, Professional Tax Officer
10	Karnataka Excise Act, 1965	Deputy Commissioner, Bangalore Urban District	License for sale of liquor. Register No.: EXE/01/45/02/CL-6(A)/2005-06 Valid upto: June 30, 2006
11	Karnataka Tax on Luxuries (Hotels and Lodging Houses) Act, 1979	Luxury Tax Officer, Assistant Commissioner of Commercial Taxes, Luxury Tax, Bangalore	Mr. Chander K. Baljee for Central Park Registration Certificate No.: ACCT/LT-I/371 Date of Issue: May 6, 2003
C. Labour related approvals			
12	Karnataka Shops And Commercial Establishments Act, 1961 – Section 4.	Inspector, Karnataka Shops & Commercial Establishments	Registration No.: 81/CE/0264/2003 Date of Registration: April 25, 2003 Valid upto: December 31, 2007
13	Employees Provident Funds and Miscellaneous	Regional Provident Fund Commissioner	Employees Provident Fund Code: KN/25880

	Provisions Funds Act, 1952 – Section 1 (3) (b)		
14.	Employees State Insurance Act, 1948 - Section 2A	E.S.I.C	Employees State Insurance Code: 53-19443-101

The list of consents / approvals / licenses not yet applied for relating to ROYAL ORCHID CENTRAL are listed below:

Sacred Hospitality Private Limited has transferred to the Company's subsidiary, Icon Hospitality Private Limited, the right to use its license to sell liquor at the Royal Orchid Central for a consideration included in the lease rentals. In accordance with the terms of the deed of the license, the taxes are to be paid by Icon and the revenues from such sales are recorded in their financial statements. As per the provisions of the Karnataka Excise Act, 1965, transfer of leases or licenses to sell liquor requires the approval of the State Government. Icon Hospitality Private Limited has not yet applied to the State Government for such transfer.

(iv) The list of consents / approvals / licenses obtained in the name of ROYAL ORCHID HARSHA are listed below:

Sl. No.	Act under which the license/approval is issued	Issuing Authority	Issued to and details of the license / approval
A. Licenses / approvals specific to the business carried on at Royal Orchid Harsha			
1	Karnataka Municipal Corporation Act, 1976 - Section 353.	Commissioner, Bangalore Mahanagara Palike	Trade license to run a restaurant. Ref No: 2004 -078 -01 -32A -01 -015488. Issued on: April 12, 2004. Renewed upto: March 31, 2006
2	Karnataka Municipal Corporation Act, 1976 - Section 353.	Commissioner, Bangalore Mahanagara Palike	Trade license to install a generator and water pump. Ref No.: 2004 -078 -01 -003 -02 -015700. Issued on: April 12, 2004. Renewed upto: March 31, 2009.
3	Karnataka Municipal Corporation Act, 1976 - Section 353.	Commissioner, Bangalore Mahanagara Palike	Trade license to provide the facilities of lodging and boarding Ref No.: 2004- 078 -01 -32A -01 -015710. Issued on: April 22, 2004. Renewed upto: March 31, 2006
4	Karnataka Prevention of Food Adulteration Rules, 1986	Chief Health Officer, Local (Health) Authority, Bangalore	License to manufacture/sale/ storage/ distribution of bakery products. Date of issue: May 12, 2005 Ref No.: SHR/59/05-06

			Valid upto: March 31, 2006
5	Karnataka Prevention of Food Adulteration Rules, 1986	Chief Health Officer, Local (Health) Authority, Bangalore	License to manufacture/sale/ storage/ distribution of Veg and non-veg food, alcoholic beverages Date of issue: May 20, 2005 Ref No.: SHR/357/05-06 Valid upto: March 31, 2006
6	Air (Prevention & Control of Pollution) Act, 1981	Environment Officer, Karnataka State Pollution Control Board	Ref no: 188/KSPCB/RO/BC-2/DEO/AEO-1/LG/APC/INR No148703/2005-06/3730 Date of issue: September 26, 2005. Valid upto: December 31, 2014
7	Water (Prevention & Control of Pollution) Act, 1974	Environment Officer, Karnataka State Pollution Control Board	Ref no: 166/KSPCB/RO/BC-2/DEO/AEO-1/LG/WPC/ INRNo :148703/2005-06/3731 Date of issue: September 26, 2005. Valid upto: December 31, 2014
B. Approval from Central and State Tax Authorities			
8	Karnataka Tax On Professions, Trades, Calling And Employments Act 1976 – Rule 3 (1) of the rules made thereunder.	Assistant Professional Tax Officer, Bangalore.	Employer Registration No.: 20001708 Date of Registration: July 12, 1976
9	Karnataka Excise Act, 1965	Deputy Commisioner, Bangalore Urban District	License for sale of liquor. Register No.: EXE/1/41/2/CL-7/2005-06. Valid upto: June 30, 2006
C. Labour related approvals			
10	Employees State Insurance Act, 1948 - Section 2A	E.S.I.C	Employees State Insurance Code : 53-2497/111
11	Employees Provident Funds and Miscellaneous Provisions Funds Act, 1952 – Section 1 (3) (b)	Regional Provident Fund Commissioner	Employees Provident Fund Code: KN/4587
12	Karnataka Shops And Commercial Establishments	Inspector, Karnataka Shops & Commercial	Registration No: 78/VASA/595/2003 Date of Registration: April 16, 1983.

	Act, 1961 – Section 4.	Establishments	
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- (v) The list of consents / approvals / licenses obtained in the name of METROPOLE are listed below:

Sl. No.	Act under which the license/approval is issued	Issuing Authority	Issued to and details of the license / approval
A. Licenses / approvals obtained by the Company specific to the business carried on at Metropole			
1	Karnataka Excise Act, 1965	Deputy Commissioner, Bangalore Urban District	License for sale of liquor. Register No.: EXE/MYS(N)/4/CL-7/2005-06. Valid upto: June 30, 2006
2	Employees State Insurance Act, 1948 - Section 2A	E.S.I.C	Employees State Insurance Code: 53-21263-09
3	Employees Provident Funds and Miscellaneous Provisions Funds Act, 1952 – Section 1 (3) (b)	Regional Provident Fund Commissioner	Employees Provident Fund Code: KN/36523
B. Approvals from Central and State Tax Authorities			
4	Commissioner, Archaeology, Museums and Heritage Department, Government of Karnataka		Certificate that the building of Hotel Metropole is classified as a heritage building in Mysore City. Certificate issued in connection with the classification of Hotel Metropole as a Heritage Hotel by the Department of Tourism, Government of India.
5	Karnataka Municipal Corporation Act, 1976 – Section 353.	Commissioner, Bangalore Mahanagara Palike	Trade license to run a restaurant. License No: 1638 Issued on: April 1, 2005. Valid upto: March 31, 2006
6	Air (Prevention and Control of Pollution) Act, 1981	Environmental Officer, Karnataka State Pollution Control Board	Ref No: 113/KSPBC/EO(MYS)/DEO/AEO-5/APC/LG/InrNo:147918/2005-06/1846 Date of issue: August 10, 2005. Valid upto: December 31, 2014.
7	Water (Prevention and Control of Pollution) Act, 1974 – Section 25	Environmental Officer, Karnataka State Pollution Control Board	Ref no: 119/KSPBC/EO(MYS)/DEO/AEO-5/WPC/Inr:147918/2005-06/1847 Date of issue: August 10, 2005. Valid upto: December 31, 2014

Approvals material to our proposed expansion plans for which applications have yet to be made

Among others, in relation to the implementation of our expansion plans, we would require permissions and/or registrations under the following legislations or from the following authorities:

1. Permissions under the Air (Prevention and Control of Pollution) Act, 1981 and the Water (Prevention and Control of Pollution) Act, 1974
2. Licenses from the concerned municipal corporations and local authorities
3. Licenses from the concerned health authorities for manufacture, sale, storage, distribution of food and beverage products
4. Sanction from the respective authorities for supply of electricity, water and utilities
5. Registrations and permissions under the applicable sales tax /value added tax and excise acts.

MATERIAL DEVELOPMENTS

To the knowledge of the Board of Directors of the Company, there have not arisen, since the date of the last financial statements disclosed in this Draft Red Herring Prospectus, any circumstances that materially or adversely affect or are likely to affect the profitability of the Company or the value of its assets or its ability to pay its liabilities within the next twelve months.

OTHER REGULATORY AND STATUTORY DISCLOSURES

Authority for the Issue

The issue of Equity Shares in this Issue by the Company has been authorised by the resolution of the Board of Directors passed at their meeting held on August 27, 2005, subject to the approval of shareholders through a special resolution to be passed pursuant to Section 81(1A) of the Companies Act. The shareholders approved the Issue at the Annual General Meeting of the shareholders of the Company held on September 28, 2005 at Bangalore.

Prohibition by SEBI

Neither we, nor our Directors or the Promoter Group Companies, or companies with which our Directors are associated with as directors or promoters, have been prohibited from accessing or operating in the capital markets under any order or direction passed by SEBI.

Eligibility for the Issue

As per Clause 2.2.1 of SEBI Guidelines, the Company may make an initial public offering of equity shares, as the Company meets the following conditions; with eligibility criteria calculated in accordance with unconsolidated financial statements under Indian GAAP:

- a) The Company has net tangible assets of at least Rs.30 million in each of the preceding three full years (of 12 months each) of which not more than 50% are held in monetary assets.
- b) The Company has a track record of distributable profits as per Section 205 of Companies Act, for at least three out of immediately preceding five years.
- c) For calculating distributable profits in terms of Section 205 of the Companies Act extra-ordinary items shall not be considered;
- d) The Company has a net worth of at least Rs. 10 million in each of the preceding three full years of 12 months each;
- e) The aggregate of the proposed Issue and all previous issues made in the same financial year in terms of size (i.e. public issue by way of a prospectus + firm allotment + promoters contribution through offer document) does not exceed five (5) times its pre-issue net worth as per the audited balance sheet of the last financial year.

(Amount in Rs. million)

	Quarter ended June 30, 2005	Year ended March 31				
As per the unconsolidated financial statements of the Company, as restated.		2005	2004	2003	2002	2001
Net Tangible Assets	642.81	605.23	341.36	266.12	250.60	248.78
Monetary Assets	62.29	51.13	52.58	8.68	2.92	39.27
% of Monetary Assets to Net Tangible Assets	12.65%	11.28%	15.86%	3.27%	1.17%	15.81%
Distributable Profits	39.60	115.30	35.16	2.38	(18.67)	(1.37)
Net-worth	273.15	233.67	112.45	77.28	74.89	93.55

Notes:

1. Net tangible assets is defined as the sum of net fixed assets (including capital work in progress, net of accumulated depreciation and excluding revaluation reserves), current assets (excluding deferred tax assets) less current liabilities (excluding deferred tax liabilities and secured and unsecured loans), after making adjustments for restatement as disclosed under 'Summary Statement of Assets and Liabilities, as Restated'.

2. Monetary assets include cash and bank balances.
3. Distributable profits as defined under Section 205 of the Companies Act, 1956 and has been calculated from the unconsolidated, Summary Statements, as Restated of the Company, for the respective years after making adjustments for restatement as disclosed under 'Summary Statement of Profits and Losses, as Restated'.
4. Networth includes equity share capital and reserves and surplus and net of accumulated losses, after making adjustments for restatement as disclosed under 'Summary Statement of Assets and Liabilities, as Restated'

Disclaimer Clause

AS REQUIRED, A COPY OF THE DRAFT RED HERRING PROSPECTUS HAS BEEN SUBMITTED TO SEBI. IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THE DRAFT RED HERRING PROSPECTUS TO SEBI SHOULD NOT, IN ANY WAY, BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE ISSUE IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE DRAFT RED HERRING PROSPECTUS. THE BOOK RUNNING LEAD MANAGERS, ICICI SECURITIES LIMITED AND SBI CAPITAL MARKETS LIMITED HAVE CERTIFIED THAT THE DISCLOSURES MADE IN THE DRAFT RED HERRING PROSPECTUS ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH SEBI (DISCLOSURES AND INVESTOR PROTECTION) GUIDELINES, 2000 AS FOR THE TIME BEING IN FORCE. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING AN INVESTMENT IN THE PROPOSED ISSUE.

IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE COMPANY IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THE DRAFT RED HERRING PROSPECTUS, THE BOOK RUNNING LEAD MANAGERS IS EXPECTED TO EXERCISE DUE DILIGENCE TO ENSURE THAT THE COMPANY DISCHARGES ITS RESPONSIBILITY ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE BOOK RUNNING LEAD MANAGERS, ICICI SECURITIES LIMITED AND SBI CAPITAL MARKETS LIMITED HAVE FURNISHED TO SEBI, A DUE DILIGENCE CERTIFICATE DATED NOVEMBER 3, 2005 IN ACCORDANCE WITH THE SEBI (MERCHANT BANKERS) REGULATIONS, 1992, WHICH READS AS FOLLOWS:

1. **"WE HAVE EXAMINED VARIOUS DOCUMENTS INCLUDING THOSE RELATING TO LITIGATION LIKE COMMERCIAL DISPUTES, PATENT DISPUTES, DISPUTES WITH COLLABORATORS ETC. AND OTHER MATERIALS IN CONNECTION WITH THE FINALISATION OF THE DRAFT RED HERRING PROSPECTUS PERTAINING TO THE SAID ISSUE.**
2. **ON THE BASIS OF SUCH EXAMINATION AND THE DISCUSSIONS WITH THE COMPANY, ITS DIRECTORS AND OTHER OFFICERS, OTHER AGENCIES, INDEPENDENT VERIFICATION OF THE STATEMENTS CONCERNING THE OBJECTS OF THE ISSUE, PROJECTED PROFITABILITY, PRICE JUSTIFICATION AND THE CONTENTS OF THE DOCUMENTS MENTIONED IN THE ANNEXURE AND OTHER PAPERS FURNISHED BY THE COMPANY.**
3. **WE CONFIRM THAT:**
 - **THE DRAFT RED HERRING PROSPECTUS FORWARDED TO SEBI IS IN CONFORMITY WITH THE DOCUMENTS, MATERIALS AND PAPERS RELEVANT TO THE ISSUE;**
 - **ALL THE LEGAL REQUIREMENTS CONNECTED WITH THE SAID ISSUE AS ALSO THE GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, THE**

GOVERNMENT AND ANY OTHER COMPETENT AUTHORITY IN THIS BEHALF HAVE BEEN DULY COMPLIED WITH;

- **THE DISCLOSURES MADE IN THE DRAFT RED HERRING PROSPECTUS ARE TRUE, FAIR AND ADEQUATE TO ENABLE THE INVESTORS TO MAKE A WELL-INFORMED DECISION AS TO THE INVESTMENT IN THE PROPOSED ISSUE;**
- **BESIDES OURSELVES, ALL THE INTERMEDIARIES NAMED IN THE DRAFT RED HERRING PROSPECTUS ARE REGISTERED WITH SEBI AND THAT TILL DATE SUCH REGISTRATIONS ARE VALID; AND**
- **WHEN UNDERWRITTEN, WE SHALL SATISFY OURSELVES ABOUT THE WORTH OF THE UNDERWRITERS TO FULFIL THEIR UNDERWRITING COMMITMENTS.”**

- 4. THE SECURITIES PROPOSED TO FORM PART OF THE PROMOTER’S CONTRIBUTION SUBJECT TO LOCK-IN, WILL NOT BE DISPOSED/SOLD/TRANSFERRED BY THE PROMOTERS DURING THE PERIOD STARTING FROM THE DATE OF FILING THE DRAFT RED HERRING PROSPECTUS WITH THE SEBI TILL THE DATE OF COMMENCEMENT OF LOCK-IN PERIOD AS STATED IN THE DRAFT RED HERRING PROSPECTUS.**

ALL LEGAL REQUIREMENTS PERTAINING TO THE ISSUE WILL BE COMPLIED WITH AT THE TIME OF FILING OF THE DRAFT RED HERRING PROSPECTUS WITH THE DESIGNATED STOCK EXCHANGE IN ACCORDANCE WITH APPLICABLE LAW, AS ALSO ANY GUIDELINES, INSTRUCTIONS, ETC. ISSUED BY SEBI, GOI AND ANY OTHER COMPETENT AUTHORITY. ALL LEGAL REQUIREMENTS PERTAINING TO THE ISSUE WILL BE COMPLIED WITH AT THE TIME OF REGISTRATION OF THE PROSPECTUS WITH THE DESIGNATED STOCK EXCHANGE IN ACCORDANCE WITH APPLICABLE LAW, AS ALSO ANY GUIDELINES, INSTRUCTIONS, ETC., ISSUED BY SEBI, GOI AND ANY OTHER COMPETENT AUTHORITY.”

THE FILING OF THE DRAFT RED HERRING PROSPECTUS DOES NOT, HOWEVER, ABSOLVE THE COMPANY FROM ANY LIABILITIES IN THE NATURE OF LIABILITIES UNDER SECTION 63 AND SECTION 68 OF THE COMPANIES ACT OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY AND OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE PROPOSED ISSUE. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP AT ANY POINT OF TIME, WITH THE BOOK RUNNING LEAD MANAGERS, ANY IRREGULARITIES OR LAPSES IN THE DRAFT RED HERRING PROSPECTUS.

Caution

The Company, our Directors and the BRLMs accepts no responsibility for statements made otherwise than in this Draft Red Herring Prospectus or in any advertisements or any other material issued by or at instance of the above mentioned entities and anyone placing reliance on any other source of information, including our website, www.royalorchidhotels.com, would be doing so at his or her own risk.

The BRLMs accepts no responsibility, save to the limited extent as provided in the Memorandum of Understanding entered into among the BRLMs and the Company dated October 27, 2005 and the Underwriting Agreement to be entered into among the Underwriters and us.

All information shall be made available by the Company and the BRLMs to the public and investors at large and no selective or additional information would be available for a section of the investors in any manner whatsoever including at road show presentations, in research or sales reports or at Bidding centres.

We shall not be liable to the Bidders for any failure in downloading the Bids due to faults in any software/hardware system or otherwise.

Disclaimer in Respect of Jurisdiction

This Issue is being made in India to Persons resident in India (including Indian nationals resident in India), who are majors, HUFs, companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in shares, Indian mutual funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission), or trusts under the applicable trust law and who are authorised under their constitution to hold and invest in shares, permitted insurance companies and pension funds and to permitted non residents including FIIs, NRIs and other eligible foreign investors. This Draft Red Herring Prospectus does not, however, constitute an offer to sell or an invitation to subscribe to Equity Shares offered hereby in any other jurisdiction to any Person to whom it is unlawful to make an offer or invitation in such jurisdiction. Any Person into whose possession this Draft Red Herring Prospectus comes is required to inform himself or herself about and to observe, any such restrictions. Any dispute arising out of this Issue will be subject to the jurisdiction of the Karnataka High Court, India only.

No action has been or will be taken to permit a public offering in any jurisdiction where action would be required for that purpose, except that this Draft Red Herring Prospectus has been filed with SEBI for observations and SEBI has given its observations. Accordingly, the Equity Shares, represented thereby may not be offered or sold, directly or indirectly, and this Draft Red Herring Prospectus may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this Draft Red Herring Prospectus nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in our affairs from the date hereof or that the information contained herein is correct as of any time subsequent to this date.

The Equity Shares have not been and will not be registered under the US Securities Act of 1933 (“the Securities Act”) or any state securities laws in the United States and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Equity Shares are only being offered and sold outside the United States to certain persons in offshore transactions in compliance with Regulation S under the Securities Act and the applicable laws of the jurisdictions where those offers and sales occur.

Disclaimer Clause of the BSE

As required, a copy of this Draft Red Herring Prospectus has been submitted to the BSE. The Disclaimer Clause as intimated by the BSE to us, upon scrutiny of this Draft Red Herring Prospectus, shall be included in the Red Herring Prospectus prior to the RoC filing.

Disclaimer Clause of the NSE

As required, a copy of this Draft Red Herring Prospectus has been submitted to the NSE. The Disclaimer Clause as intimated by the NSE to us, upon scrutiny of this Draft Red Herring Prospectus, shall be included in the Red Herring Prospectus prior to the RoC filing.

Filing

A copy of this Draft Red Herring Prospectus has been filed with SEBI at Corporation Finance Department, Ground Floor, Mittal Court, “A” Wing, Nariman Point, Mumbai 400 021.

A copy of the Draft Red Herring Prospectus, along with the documents required to be filed under Section 60B of the Companies Act, would be delivered for registration to the RoC at 2nd floor, ‘E’ Wing, Kendriya Sadan, Koramangala, Bangalore 560 034 and a copy of the Prospectus to be filed under Section 60 of the Companies Act would be delivered for registration with RoC.

Listing

Applications have been made to the NSE and BSE for permission to deal in and for an official quotation of our Equity Shares. NSE will be the Designated Stock Exchange.

If the permissions to deal in and for an official quotation of the Equity Shares are not granted by any of the Stock Exchanges mentioned above, the Company will forthwith repay, without interest, all moneys received

from the applicants in pursuance of this Draft Red Herring Prospectus. If such money is not repaid within eight (8) days after the Company becomes liable to repay it, i.e., from the date of refusal or within 70 days from the Bid/Issue Closing Date, whichever is earlier, then the Company, and every Director of the Company who is an officer in default shall, on and from such expiry of eight (8) days, be liable to repay the money, with interest at the rate of 15.0% per annum on application money, as prescribed under Section 73 of the Companies Act.

The Company shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges mentioned above are taken within seven (7) working days of finalization of the basis of allocation for the Issue.

Impersonation

Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68A of the Companies Act, which is reproduced below:

“Any person who:

- (a) makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or***
- (b) otherwise induces a company to allot, or register any transfer of shares, therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years.”***

Consents

Consents in writing of: (a) the Directors, the Company Secretary and Compliance Officer, the Auditors, Legal Advisors, the Banker to the Issue; and (b) Book Running Lead Manager, Syndicate Member, Escrow Collection Bank(s) and Registrar to the Issue, to act in their respective capacities, have been obtained and shall be filed along with a copy of the Draft Red Herring Prospectus with the RoC and such consents have not been withdrawn up to the time of delivery of this Draft Red Herring Prospectus for registration with the RoC.

Walker, Chandiok & Co., Chartered Accountants, our Auditors, have given their written consent to the inclusion of their report in the form and context in which it appears in this Draft Red Herring Prospectus and such consent and report has not been withdrawn up to the time of delivery of this Draft Red Herring Prospectus for filing with the RoC.

Expert Opinion

Except as stated elsewhere in this Draft Red Herring Prospectus, we have not obtained any expert opinions.

Expenses of the Issue

The expenses of this Issue include, among others, underwriting and management fees, selling commission, printing and distribution expenses, legal fees, statutory advertisement expenses and listing fees. The estimated Issue expenses are as follows:

Activity	Amount (Rs in Million)	Percentage*
Lead Management, underwriting and selling commission	[●]	[●]
Advertisement and Marketing expenses	[●]	[●]
Printing and stationery	[●]	[●]
Others (Registrars fee, legal fee, listing fee, etc)	[●]	[●]
Total estimated Issue expenses	[●]	[●]

* - will be incorporated after Issue Price is finalized

Fees Payable to the BRLMs, Brokerage and Selling Commission

The total fees payable to the BRLMs including brokerage and selling commission for the Issue will be as per the Memorandum of Understanding executed between the Company and the BRLMs dated October 27, 2005, a copy of which are available for inspection at our Corporate Office.

Fees Payable to the Registrar to the Issue

The fees payable to the Registrar to the Issue will be as per the Registrar' Memorandum of Understanding dated September 15, 2005, copies of which is available for inspection at our Corporate Office.

Adequate funds will be provided to the Registrar to the Issue to enable them to send refund orders or allotment advice by registered post.

Bidding Period / Issue Period

BID / ISSUE OPENS ON	[●]
BID / ISSUE CLOSES ON	[●]

Bids and any revision in Bids shall be accepted **only between 10 a.m. and 3 p.m.** (Indian Standard Time) during the Bidding Period/Issue Period as mentioned above at the bidding centres mentioned on the Bid cum Application Form except that on the Bid Closing Date, the Bids shall be accepted **only between 10 a.m. and 1 p.m.** (Indian Standard Time) and uploaded till such time as permitted by the BSE and NSE.

The Company reserves the right to revise the Price Band during the Bidding Period/Issue Period in accordance with SEBI Guidelines. The cap on the Price Band should not be more than 20% of the floor of the Price Band. Subject to compliance with the immediately preceding sentence, the floor of the Price Band can move up or down to the extent of 20% of the floor of the Price Band disclosed in the Draft Red Herring Prospectus.

In case of revision in the Price Band, the Bidding Period/Issue Period will be extended for three additional days after revision of Price Band subject to the Bidding Period/Issue Period not exceeding 13 days. Any revision in the Price Band and the revised Bidding Period/Issue Period, if applicable, will be widely disseminated by notification to BSE and NSE by issuing a press release, and also by indicating the change on the website of the BRLMs and at the terminals of the Syndicate.

Designated Date and allotment of Equity Shares

- (a) The Company will ensure that the allotment of Equity Shares is done within 15 days of the Bid Closing Date/Issue Closing Date. After the funds are transferred from the Escrow Accounts to the Issue Account on the Designated Date, we would ensure the credit to the successful Bidders depository account within two working days of the date of allotment.
- (b) As per SEBI Guidelines, **Equity Shares will be issued and allotment shall be made only in the dematerialised form to the allottees.** Allottees will have the option to re-materialise the Equity Shares, if they so desire, in the manner stated in the Depositories Act.

Letters of allotment or refund orders

We shall give credit to the beneficiary account with Depository Participants within two working days from the date of the finalisation of basis of allocation. We shall ensure despatch of refund orders, if any, of value up to Rs. 1,500 by "Under Certificate of Posting", and shall dispatch refund orders above Rs. 1,500, if any, by registered post only at the sole or First Bidder's sole risk within 15 days of the Bid Closing Date/Issue Closing Date, and adequate funds for the purpose shall be made available to the Registrar by us.

In accordance the requirements of the Stock Exchanges and SEBI Guidelines, we undertake that:

- Allotment shall be made only in dematerialised form within 15 days from the Issue Closing Date;
- Despatch of refund orders shall be done within 15 days from the Issue Closing Date; and

- We shall pay interest at 15.0% per annum (for any delay beyond the 15-day time period as mentioned above), if allotment is not made, refund orders are not despatched and/or demat credits are not made to Bidders within the 15-day time prescribed above, provided that the beneficiary particulars relating to such Bidders as given by the Bidders is valid at the time of the upload of the demat credit.

We will provide adequate funds required for despatch of refund orders or allotment advice to the Registrar to the Issue.

Refunds will be made by cheques, pay orders or demand drafts drawn on the Escrow Collection Bank(s) and payable at par at places where Bids are received. The bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centres will be payable by the Bidders.

Companies Under The Same Management

Except as stated in this Draft Red Herring Prospectus, there are no companies under the same management.

Particulars Regarding Public Issues During The Last Five Years

We have not made any public issue during the last five years.

Promise vs. Performance

This is the initial public Issue of the Company.

Issues otherwise than for cash

The Company has not made any previous issue of shares otherwise than for cash except as stated in the section titled “Capital Structure” on page 13 of this Draft Red Herring Prospectus.

Purchase of Property

Except as stated in the section titled “Objects of the Issue” and elsewhere in this Draft Red Herring Prospectus, there is no property which we have purchased or acquired or propose to purchase or acquire which is to be paid for wholly, or in part, from the net proceeds of the Issue or the purchase or acquisition of which has not been completed on the date of this Draft Red Herring Prospectus, other than property in respect of which:

- the contracts for the purchase or acquisition were entered into in the ordinary course of the business, and the contracts were not entered into in contemplation of the Issue nor is the Issue contemplated in consequence of the contracts; or
- the amount of the purchase money is not material; or
- disclosure has been made earlier in this Draft Red Herring Prospectus.

Except as stated in the section titled “Related Party Transactions” on page 84 of this Draft Red Herring Prospectus, we have not purchased any property in which any Directors, have any direct or indirect interest in any payment made thereof.

Servicing Behaviour

There has been no default in payment of statutory dues or of interest or principal in respect of our borrowings or deposits.

Stock Market Data for Our Equity Shares

This being the initial public Issue, the Equity Shares are not listed on any stock exchange.

Mechanism for Redressal of Investor Grievances

Investor grievance will be settled expeditiously and satisfactorily by us. The agreement between the Registrar to the Issue and us, will provide for retention of records with the Registrar to the Issue for a period of at least one year from the last date of dispatch of letters of allotment, demat credit, refund orders to enable the investors to approach the Registrar to the Issue for redressal of their grievances.

All grievances relating to the Issue may be addressed to the Registrar to the Issue giving full details such as name, address of the applicant, application number, number of shares applied for, amount paid on application, Depository Participant, and the Syndicate Member or collection center where the application was submitted.

Disposal of Investor Grievances

We estimate that the average time required by us or the Registrar to the Issue to address routine investor grievances shall be seven days from the date of receipt of the complaint. In case of non-routine complaints and complaints where external agencies are involved, we will seek to redress these complaints as expeditiously as possible.

We have appointed Mr. G. Tirupathi Rao, as the Compliance Officer and he may be contacted in case of any pre-Issue or post-Issue-related problems. He can be contacted at the following address:

Mr. G. Tirupathi Rao
Company Secretary & Compliance Officer
Royal Orchid Hotels Limited
No. 11, Park Road
Bangalore – 560 051
Karnataka
Tel : (91 80) 2558 4242
Fax : (91 80) 2559 4596
Email : gtrao@baljeehotels.com

Changes in Auditors

Over the last three years, we have effected one change in the auditors of the Company. On February 2, 2005, our previous auditors i.e. Subramanian & Co. resigned as statutory auditors. The members of the Company have filled the casual vacancy caused by resignation of the statutory auditors by appointing Walker, Chandiok & Co. as the statutory auditors of the Company vide resolution passed in the Extra-Ordinary General Meeting held on August 22, 2005.

Capitalisation of Reserves or Profits

We have not capitalised our reserves or profits at any time other than through a bonus issue of 9,717,470 equity shares of Rs.10 each fully paid up on September 21, 2005 in the ratio of one equity share for every one equity share held.

Revaluation of Assets

We have not revalued our assets in the past five years.

TERMS OF THE ISSUE

The Equity Shares being offered are subject to the provisions of the Companies Act, the Memorandum and the Articles of Association of the Company, the terms of this Draft Red Herring Prospectus, the Bid cum Application Form, the Revision Form, the CAN and other terms and conditions as may be incorporated in the allotment advice and other documents/certificates that may be executed in respect of the Issue. The Equity Shares shall also be subject to laws as applicable, guidelines, notifications and regulations relating to the issue of capital and listing and trading of securities issued from time to time by SEBI, the Government, Stock Exchanges, RBI, and/or other authorities, as in force on the date of the Issue and to the extent applicable.

Ranking of Equity Shares

The Equity Shares being offered shall be subject to the provisions of the Companies Act, the Memorandum and the Articles of Association of the Company and shall rank *pari passu* in all respects with the existing Equity Shares of the Company, including rights in respect of dividends. See the section titled “Main Provisions of the Articles of Association” on page 228 of this Draft Red Herring Prospectus.

Face Value and Issue Price

The Equity Shares with a face value of Rs. 10 each are being offered in terms of this Draft Red Herring Prospectus at a total price of Rs. [●] per Equity Share. At any given point of time there shall be only one denomination for the Equity Shares.

The face value of the shares is Rs. 10 and the Floor Price is [●] times of the face value and the Cap Price is [●] times of the face value

Rights of the Equity Shareholder

Subject to applicable laws, the Equity Shareholders shall have the following rights:

- Right to receive dividend, if declared;
- Right to attend general meetings and exercise voting powers, unless prohibited by law;
- Right to vote on a poll either in person or by proxy;
- Right to receive offers for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation;
- Right of free transferability; and
- Such other rights, as may be available to a shareholder of a listed public company under the Companies Act and our Memorandum and Articles.

For a detailed description of the main provisions of our Articles relating to, among other things, voting rights, dividend, forfeiture and lien, transfer and transmission see the section titled “Main Provisions of the Articles of Association” on page 228 of this Draft Red Herring Prospectus.

Market Lot and Trading Lot

In terms of Section 68B of the Companies Act, the Equity Shares shall be allotted only in dematerialized form. As per the existing SEBI Guidelines, the trading in the Equity Shares shall only be in dematerialised form for all investors. Since trading of our Equity Shares is in dematerialised form, the tradable lot is one Equity Share. Allotment through this Issue will be done only in electronic form in multiples of one Equity Share subject to a minimum allotment of one Equity Share.

Nomination Facility to the Investor

In the nature of the rights specified in Section 109A of the Companies Act, the sole or first Bidder, along with other joint Bidder, may nominate any one Person in whom, in the event of the death of sole Bidder or in case of joint Bidders, death of all the Bidders, as the case may be, the Equity Shares allotted, if any, shall vest. A Person, being a nominee, entitled to the Equity Shares by reason of the death of the original holder(s), shall be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the Equity Share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any Person to become entitled to Equity Share(s) in the

event of his or her death during the minority. A nomination shall stand rescinded upon a sale/transfer/alienation of Equity Share(s) by the Person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at the Corporate Office of the Company or at the Registrar and Transfer Agents of the Company.

In the nature of the rights stated in Section 109B of the Companies Act, any Person who becomes a nominee in the manner stated above, shall upon the production of such evidence as may be required by the Board of Directors, elect either:

- to register himself or herself as the holder of the Equity Shares; or
 - to make such transfer of the Equity Shares, as the deceased holder could have made.
- Further, the Board of Directors may at any time give notice requiring any nominee to choose either to be registered himself or herself or to transfer the Equity Shares, and if the notice is not complied with, within a period of 90 days, the Board of Directors may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the Equity Shares, until the requirements of the notice have been complied with.

Notwithstanding anything stated above, since the allotment in the Issue will be made only in dematerialised mode, there is no need to make a separate nomination with the Company. Nominations registered with the respective depository participant of the applicant would prevail. If the investors require to change the nomination, they are requested to inform their respective depository participant.

Minimum Subscription

If we do not receive the minimum subscription of 90% of the Issue to the public to the extent of the amount payable on application, including devolvment on Underwriters, if any, within 60 days from the Bid Closing Date, we shall forthwith refund the entire subscription amount received. If there is a delay beyond eight days after we become liable to pay the amount (i.e., 60 days from the Bid Closing Date), we shall pay interest prescribed under Section 73 of the Companies Act.

Jurisdiction

Exclusive jurisdiction for the purpose of this Issue is with competent courts/authorities in Karnataka, India.

Subscription by Non-Residents/NRI/FIIs/Foreign Venture Capital Fund/Multilateral and Bilateral Development Financial Institutions

There is no reservation for any Non-Residents, NRIs, FIIs, foreign venture capital investors registered with SEBI and multilateral and bilateral development financial institutions and such Non-Residents, NRIs, FIIs, foreign venture capital investors registered with SEBI and multilateral and bilateral development financial institutions will be treated on the same basis with other categories for the purpose of allocation.

As per RBI regulations, OCBs cannot participate in the Issue.

Application in Issue

Equity Shares being issued through this Draft Red Herring Prospectus can be applied for in the dematerialized form only.

Withdrawal of the Issue

The Company, in consultation with the BRLMs, reserves the right not to proceed with the Issue at anytime including after the Bid Closing Date, without assigning any reason thereof.

The Equity Shares have not been and will not be registered under the US Securities Act of 1933 (“the Securities Act”) or any state securities laws in the United States and may not be offered or sold within the United States or to, or for the account or benefit of, “U.S. persons” (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to,

the registration requirements of the Securities Act. Accordingly, the Equity Shares are only being offered and sold (i) in the United States to “qualified institutional buyers”, as defined in Rule 144A of the Securities Act in reliance on Rule 144A under the Securities Act, and (ii) outside the United States to certain Persons in offshore transactions in compliance with Regulation S under the Securities Act and the applicable laws of the jurisdictions where those offers and sales occur.

ISSUE STRUCTURE

The present Issue of 6,820,000 Equity Shares Rs. 10 each, at a price of Rs. [●] for cash aggregating Rs. [●] is being made through the 100% Book Building Process.

Particulars	QIBs	Non-Institutional Bidders	Retail Individual Bidders
Number of Equity Shares*	Upto 3,410,000 Equity Shares	Minimum of 1,023,000 Equity Shares or Issue less allocation to QIB Bidders and Retail Individual Bidders.	Minimum of 2,387,000 Equity Shares or Issue less allocation to QIB Bidders and Non-Institutional Bidders.
Percentage of Issue Size available for allocation	Upto 50% of the Issue. 5% of the QIB Portion shall be available for allocation to Mutual Funds. Mutual Funds participating in the 5% reservation in the QIB Portion will also be eligible for allocation in the remaining QIB Portion. The unsubscribed portion in the Mutual Fund reservation will be available to QIBs.	Minimum 15% of the Issue or the Issue less allocation to QIB Bidders and Retail Individual Bidders.	Minimum 35% of the Issue or the Issue less allocation to QIB Bidders and Non Institutional Bidders.
Basis of Allocation if respective category is oversubscribed	Proportionate as follows: (a) 170,500 Equity Shares shall be allocated on a proportionate basis to Mutual Funds; and (b) 3,239,500 Equity Shares shall be allocated on a proportionate basis to all QIBs including Mutual Funds receiving allocation as per (a) above.	Proportionate	Proportionate
Minimum Bid	Such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter.	Such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter.	[●] Equity Shares and in multiples of [●] Equity Share thereafter.
Maximum Bid	Such number of Equity Shares not exceeding the Issue, subject to applicable limits.	Such number of Equity Shares not exceeding the Issue subject to applicable limits.	Such number of Equity Shares whereby the Bid Amount does not exceed Rs. 100,000.
Mode of allotment	Compulsorily in dematerialised form.	Compulsorily in dematerialised form.	Compulsorily in dematerialised form.
Trading Lot	One Equity Share	One Equity Share	One Equity Share
Who can Apply	Public financial institutions, as specified in Section 4A of the	NRIs, Resident Indian individuals, HUF (in the name of Karta),	Individuals (including HUFs, NRIs) applying for Equity Shares such that the

	Companies Act, scheduled commercial banks, mutual funds, foreign institutional investors registered with SEBI, multilateral and bilateral development financial institutions, and State Industrial Development Corporations, permitted insurance companies registered with the Insurance Regulatory and Development Authority, provident funds with minimum corpus of Rs. 250 million and pension funds with minimum corpus of Rs. 250 million in accordance with applicable law.	companies, corporate bodies, scientific institutions societies and trusts.	Bid Amount does not exceed Rs. 100,000 in value.
Terms of Payment	Margin Amount applicable to QIB Bidders at the time of submission of Bid cum Application Form to the Syndicate Member.	Margin Amount applicable to Non Institutional Bidders at the time of submission of Bid cum Application Form to the Syndicate Member.	Margin Amount applicable to Retail Individual Bidders at the time of submission of Bid cum Application Form to the Syndicate Member.
Margin Amount	Atleast 10% of the Bid Amount on Bidding	Full Bid Amount on Bidding	Full Bid Amount on Bidding

* Subject to valid Bids being received at or above the Issue Price. Under-subscription, if any, in any category, would be allowed to be met with spillover from any other portions at the discretion of our Company, in consultation with the BRLMs.

ISSUE PROCEDURE

The Issue Procedure as detailed hereunder may undergo changes/modifications pursuant to our discussions with SEBI and the Stock Exchanges in the light of the recent amendments to the SEBI Guidelines on September 19, 2005. Further, the BRLMs may effect changes in the Issue Procedure with the approval of SEBI and/or Stock Exchanges to resolve any operational difficulties in implementing the recent amendments to the SEBI Guidelines relating to proportionate allotment to QIBs.

Book Building Procedure

The Issue is being made through the 100% Book Building Process wherein 50% of the Issue shall be available for proportionate allocation to QIB Bidders. Out of the portion available for allocation to the QIBs, 5% shall be allocated proportionately to Mutual Funds. Mutual Fund applicants shall also be eligible for proportionate allocation under the balance available for the QIBs. Further not less than 35% of the Issue shall be available for allocation on a proportionate basis to the Retail Individual Bidders and not less than 15% of the Issue shall be available for allocation on a proportionate basis to Non-Institutional Bidders, subject to valid Bids being received at or above the Issue Price.

Bidders are required to submit their Bids through the Syndicate. The Company, in consultation with the BRLMs reserve the right to reject any bid procured by any or all members of the Syndicate without assigning any reason thereof from QIBs. In case of Non – Institutional Bidders and Retail Individual Bidders, the Company would have the right to reject the Bids only on technical grounds.

Investors should note that Equity Shares would be allotted to successful allottees only in the dematerialised form. Allottees will not have the option of getting allotment in physical form. The Equity Shares, on allotment, shall be traded only in the dematerialised segment of the Stock Exchanges.

Bid cum Application Form

Bidders shall only use the specified Bid cum Application Form bearing the stamp of a member of the Syndicate for the purpose of making a Bid in terms of this Draft Red Herring Prospectus. The Bidder shall have the option to make a maximum of three Bids in the Bid cum Application Form and such options shall not be considered as multiple Bids. Upon the allocation of Equity Shares, dispatch of the CAN, and filing of the Prospectus with the RoC, the Bid cum Application Form shall be considered as the application form. Upon completing and submitting the Bid cum Application Form to a member of the Syndicate, the Bidder is deemed to have authorised our Company to make the necessary changes in this Draft Red Herring Prospectus and the Bid cum Application Form as would be required for filing the Prospectus with the RoC and as would be required by RoC after such filing, without prior or subsequent notice of such changes to the Bidder.

The prescribed colour of the Bid cum Application Form for various categories, is as follows:

Category	Colour of Bid cum Application Form
Indian public including resident QIBs, Non Institutional Bidders and Retail Individual Bidders	White
NRIs and FIIs	Blue

Who can Bid?

- Indian nationals resident in India who are majors, in single or joint names (not more than three);
- Hindu Undivided Families or HUFs, in the individual name of the *Karta*. The Bidder should specify that the Bid is being made in the name of the HUF in the Bid cum Application Form as follows: “Name of Sole or First bidder: XYZ Hindu Undivided Family applying through XYZ, where XYZ is the name of the *Karta*”. Bids by HUFs would be considered at par with those from individuals;
- Companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in the Equity Shares;

- Indian Mutual Funds registered with SEBI;
- Indian Financial Institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission, as applicable);
- Venture Capital Funds registered with SEBI;
- Foreign Venture Capital Investors registered with SEBI;
- State Industrial Development Corporations;
- Trusts registered under the Societies Registration Act, 1860, as amended, or under any other law relating to Trusts and who are authorised under their constitution to hold and invest in equity shares;
- NRIs and FIIs on a repatriation basis or a non-repatriation basis subject to applicable laws;
- Scientific and/or Industrial Research Organisations authorised to invest in equity shares;
- Insurance Companies registered with Insurance Regulatory and Development Authority;
- Provident Funds with minimum corpus of Rs. 250 million and who are authorised under their constitution to hold and invest in equity shares;
- Pension Funds with minimum corpus of Rs. 250 million and who are authorised under their constitution to hold and invest in equity shares;
- Multilateral and Bilateral Development Financial Institutions; and
- Pursuant to the existing regulations, OCBs are not eligible to participate in the Issue.

Note: The BRLMs and Syndicate Member shall not be entitled to subscribe to this Issue in any manner except towards fulfilling their underwriting obligation.

In terms of the Regulation 15A (1) of the Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995, the Foreign Institutional Investor or sub-account ("FIIs") may issue, deal in or hold, off-shore derivative instruments such as Participatory Notes, Equity Linked Notes or any other similar instruments against underlying securities being allocated to such FIIs.

Bidders are advised to ensure that any single Bid from them does not exceed the investment limits or maximum number of Equity Shares that can be held by them under applicable law.

Application by Mutual Funds

As per the SEBI (Mutual Funds) Regulations, 1996, the following restrictions are applicable for investments by mutual funds:

No mutual fund scheme shall invest more than 10% of its net asset value in the Equity Shares or equity related instruments of any company provided that the limit of 10% shall not be applicable for investments in index funds or sector or industry specific funds. No mutual fund under all its schemes should own more than 10% of any company's paid-up share capital carrying voting rights. These limits would have to be adhered to by the mutual funds for investment in the Equity Shares.

In case of a mutual fund, a separate Bid can be made in respect of each scheme of the mutual fund registered with SEBI and such Bids in respect of more than one scheme of the mutual fund will not be treated as multiple Bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.

Information on reservation for Mutual Funds

5% of the QIB Portion shall be available for allocation to Mutual Funds. Mutual Funds participating in the 5% reservation in the QIB Portion will also be eligible for allocation in the remaining QIB Portion.

Application by NRIs

Bid cum application forms have been made available for NRIs at the Corporate Office of the Company.

NRI applicants may please note that only such applications as are accompanied by payment in free foreign exchange shall be considered for allotment under the reserved category. The NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the form meant for Resident Indians and shall not use the forms meant for reserved category.

Application by FIIs

As per the SEBI (Foreign Institutional Investors) Regulations, 1995 and the Guidelines made thereunder, the following restrictions are applicable for investments by FIIs:

The issue of Equity Shares to a single FII should not exceed 10% of our post-Issue issued capital Equity Shares. In respect of an FII investing in our Equity Shares on behalf of its sub-accounts, the investment on behalf of each sub-account shall not exceed 10% of our total issued capital or 5% of our total issued capital in case such sub-account is a foreign corporate or an individual.

As per the SEBI (Venture Capital) Regulations, 1996 and the SEBI (Foreign Venture Capital Investor) Regulations, 2000, the following restrictions are applicable for SEBI registered Venture Capital Funds and Foreign Venture Capital Investors:

The holding by any individual venture capital fund or foreign venture capital investor registered with SEBI should not exceed 25% of the corpus of the venture capital fund / foreign venture capital investor.

Maximum and Minimum Bid Size

- (a) **For Retail Individual Bidders:** The Bid must be for a minimum of [●] Equity Shares and in multiples of [●] Equity Share thereafter, so as to ensure that the Bid Amount payable by the Bidder does not exceed Rs. 100,000. In case of revision of Bids, the Retail Individual Bidders have to ensure that the Bid Amount does not exceed Rs. 100,000. In case the Bid Amount is over Rs. 100,000 due to revision of the Bid or revision of the Price Band or on exercise of cut-off option, the Bid would be considered for allocation under the Non Institutional Bidders portion. The cut-off option is an option given only to the Retail Individual Bidders indicating their agreement to Bid and purchase at the final Issue Price as determined at the end of the Book Building Process.
- (b) **For Non-Institutional Bidders and QIB Bidders:** The Bid must be for a minimum of such number of Equity Shares such that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter. A Bid cannot be submitted for more than the Issue to the public. However, the maximum Bid by a QIB Bidder should not exceed the investment limits prescribed for them by applicable laws. **Under existing SEBI guidelines, a QIB Bidder cannot withdraw its Bid after the Bid Closing Date/Issue Closing Date and is required to pay the QIB Margin upon submission of the Bid cum Application Form. Bidders are advised to ensure that any single Bid from them does not exceed the investment limits or maximum number of Equity Shares that can be held by them under applicable law or regulation or as specified in this Draft Red Herring Prospectus.**

In case of revision in Bids, the Non Institutional Bidders, who are individuals, have to ensure that the Bid Amount is greater than Rs. 100,000 for being considered for allocation in the Non Institutional Portion. In case the Bid Amount reduces to Rs. 100,000 or less due to a revision in Bids or revision of the Price Band, Bids by Non Institutional Bidders who are eligible for allocation in the Retail Portion would be considered for allocation under the Retail Portion. Non Institutional Bidders and QIB Bidders are not allowed to Bid at 'cut-off'.

Information for the Bidders

- (a) We will file the Red Herring Prospectus with the RoC at least three days before the Bid Opening Date/ Issue Opening Date.
- (b) The members of the Syndicate will circulate copies of the Red Herring Prospectus along with the Bid cum Application Form to potential investors.
- (c) Any investor (who is eligible to invest in our Equity Shares according to the terms of this Red Herring Prospectus and applicable law) who would like to obtain the Red Herring Prospectus and/or the Bid cum Application Form can obtain the same from our Corporate Office or from any of the members of the Syndicate.

- (d) The Bids should be submitted on the prescribed Bid cum Application Form only. Bid cum Application Forms should bear the stamp of the members of the Syndicate. Bid cum Application Forms which do not bear the stamp of the members of the Syndicate will be rejected.

Method and Process of Bidding

- (a) The Company and the BRLMs shall declare the Bid Opening Date/Issue Opening Date, Bid Closing Date/Issue Closing Date and Price Band at the time of filing the Red Herring Prospectus with the RoC and also publish the same in three widely circulated newspapers (one each in English, Hindi and Kannada). This advertisement shall contain the minimum disclosures as specified under Schedule XX-A of the SEBI Guidelines. The Syndicate Member shall accept Bids from the Bidders during the Issue Period in accordance with the terms of the Syndicate Agreement.
- (b) Eligible investors who are interested in subscribing for the Equity Shares should approach any of the BRLMs or members of the Syndicate or their authorised agent(s) to register their Bid. Every member of the Syndicate shall accept Bids from investors who place orders through them and shall have the right to vet the Bids.
- (c) The Bidding/Issue Period shall be a minimum of three working days and shall not exceed seven working days. In case the Price Band is revised, the revised Price Band and the Bidding/Issue Period will be published in three widely circulated newspapers (one each in English, Hindi and Kannada) and also by indicating the change on the website of the BRLM and at the terminals of the members of the Syndicate and the Bidding/Issue Period may be extended, if required, for an additional three working days, subject to the total Bidding/Issue Period not exceeding 10 working days..
- (d) Each Bid cum Application Form will give the Bidder the choice to bid for up to three optional prices (for details see the section titled “Issue Procedure-Bids at Different Price Levels” on page 209 of this Draft Red Herring Prospectus) within the Price Band and specify the demand (i.e. the number of Equity Shares Bid for) in each option. The price and demand options submitted by the Bidder in the Bid cum Application Form will be treated as optional demands from the Bidder and will not be cumulated. After determination of the Issue Price, the maximum number of Equity Shares Bid for by a Bidder at or above the Issue Price will be considered for allocation and the rest of the Bid(s), irrespective of the Bid Price, will become automatically invalid.
- (e) The Bidder cannot bid on another Bid cum Application Form after Bid(s) on one Bid cum Application Form have been submitted to any member of the Syndicate. Submission of a second Bid cum Application Form to either the same or to another member of the Syndicate will be treated as multiple Bids and is liable to be rejected either before entering the Bid into the electronic bidding system, or at any point of time prior to the allocation or allotment of Equity Shares in this Issue. However, the Bidder can revise the Bid through the Revision Form, the procedure for which is detailed under the section titled “Issue Procedure-Build up of the Book and Revision of Bids” on page 211 of this Draft Red Herring Prospectus.
- (f) The Syndicate Member will enter each Bid option into the electronic bidding system as a separate Bid and generate a Transaction Registration Slip, (“TRS”), for each price and demand option and give the same to the Bidder. Therefore, a Bidder can receive up to three TRSs for each Bid cum Application Form.
- (h) Along with the Bid cum Application Form, all Bidders will make payment in the manner described under the section titled “Issue Procedure-Terms of Payment and Payment into the Escrow Accounts” on page 210 of this Red Herring Prospectus.
- (g) During the Bidding Period, Bidders may approach the members of the Syndicate to submit their Bid. Every member of the Syndicate shall accept Bids from all clients / investors who place orders through them and shall have the right to vet the Bids.

Bids at Different Price Levels

1. The Price Band has been fixed at Rs. [●] to Rs. [●] per Equity Share of Rs. 10 each, Rs. [●] being the Floor Price and Rs. [●] being the Cap Price. The Bidders can bid at any price within the Price Band, in multiples of Re. [●].
2. The Company, in consultation with the BRLMs, can revise the Price Band during the Bidding/Issue Period, in which case the Bidding/Issue Period shall be extended further for a period of three additional working days, subject to the total Bidding/Issue Period being a maximum of 10 working days. The cap on the Price Band will not be more than 20% of the floor of the Price Band. Subject to compliance with the immediately preceding sentence, the floor of Price Band can move up or down to the extent of 20% of the floor of the price band disclosed in the Red Herring Prospectus.
3. Any revision in the Price Band will be widely disseminated by informing the stock exchanges, by issuing a public notice in three widely circulated newspapers (one each in English, Hindi and Kannada) and also indicating the change on the web site of the BRLMs and at the terminals of the members of the Syndicate.
4. The Company, in consultation with the BRLMs, can finalise the Issue Price within the Price Band in accordance with this clause, without the prior approval of, or intimation, to the Bidders.
5. Bidders can bid at any price within the Price Band. Bidders have to bid for the desired number of Equity Shares at a specific price. **Retail Individual Bidders applying for a maximum Bid in any of the bidding options not exceeding Rs. 100,000 may bid at Cut-off Price. However, bidding at Cut-off Price is prohibited for QIB Bidders and Non-Institutional Bidders and such Bids from QIB Bidders and Non Institutional Bidders shall be rejected.**
6. Retail Individual Bidders who bid at the Cut-off Price agree that they shall purchase the Equity Shares at any price within the Price Band. Retail Individual Bidders bidding at Cut-off Price shall deposit the Bid Amount based on the Cap Price in the respective Escrow Accounts. In the event the Bid Amount is higher than the subscription amount payable by the Retail Individual Bidders who Bid at Cut-off Price (i.e. the total number of Equity Shares allocated in the Issue multiplied by the Issue Price), the Retail Individual Bidders, who Bid at Cut off Price, shall receive the refund of the excess amounts from the respective Escrow Accounts/refund account(s).
7. In case of an upward revision in the Price Band announced as above, Retail Individual Bidders, who had bid at Cut-off Price could either (i) revise their Bid or (ii) make additional payment based on the cap of the revised Price Band (such that the total amount i.e. original Bid Amount plus additional payment does not exceed Rs. 100,000 if the Bidder wants to continue to bid at Cut-off Price), with the Syndicate Member to whom the original Bid was submitted. In case the total amount (i.e. original Bid Amount plus additional payment) exceeds Rs. 100,000, the Bid will be considered for allocation under the Non-Institutional Portion in terms of this Red Herring Prospectus. If, however, the Bidder does not either revise the Bid or make additional payment and the Issue Price is higher than the cap of the Price Band prior to the revision, the number of Equity Shares Bid for shall be adjusted downwards for the purpose of allotment, such that the no additional payment would be required from the Bidder and the Bidder is deemed to have approved such revised Bid at Cut-off Price.
8. In case of a downward revision in the Price Band, announced as above, Retail Individual Bidders, who have bid at Cut-off Price could either revise their Bid or the excess amount paid at the time of bidding would be refunded from the respective Escrow Accounts/refund account(s).
9. In the event of any revision in the Price Band, whether upwards or downwards, the minimum application size shall remain [●] Equity Shares irrespective of whether the Bid Amount payable on such minimum application is not in the range of Rs. [●] to Rs. [●].

Escrow Mechanism

We shall open Escrow Accounts with one or more Escrow Collection Bank(s) in whose favour the Bidders shall make out the cheque or demand draft in respect of his or her Bid and/or revision of the Bid. Cheques or demand drafts received for the full Bid Amount from Bidders in a certain category would be deposited in

the respective Escrow Account. The Escrow Collection Bank(s) will act in terms of this Red Herring Prospectus and the Escrow Agreement. The monies in the Escrow Accounts shall be maintained by the Escrow Collection Bank(s) for and on behalf of the Bidders. The Escrow Collection Bank(s) shall not exercise any lien whatsoever over the monies deposited therein and shall hold the monies therein in trust for the Bidders. On the Designated Date, the Escrow Collection Bank(s) shall transfer the monies from the Escrow Accounts to the Issue Account as per the terms of the Escrow Agreement. Payments of refund to the Bidders shall also be made from the Escrow Accounts/refund account(s) as per the terms of the Escrow Agreement and this Red Herring Prospectus.

The Bidders should note that the escrow mechanism is not prescribed by SEBI and has been established as an arrangement between us, the members of the Syndicate, the Escrow Collection Bank(s) and the Registrar to the Issue to facilitate collections from the Bidders.

Terms of Payment and Payment into the Escrow Accounts

Each Bidder shall, with the submission of the Bid cum Application Form draw a cheque or demand draft for the Margin amount of the Bid in favor of the Escrow Account of the Escrow Collection Bank (for details refer to the paragraph “Issue Procedure-Payment Instructions” on page 218 of this Draft Red Herring Prospectus) and submit the same to the member of the Syndicate with whom the Bid is being deposited. Bid cum Application Forms accompanied by cash/stock invest/money order shall not be accepted. The maximum Bid Amount has to be paid at the time of submission of the Bid cum Application Form based on the highest bidding option of the Bidder.

The members of the Syndicate shall deposit the cheque or demand draft with the Escrow Collection Bank(s), which will hold the monies for the benefit of the Bidders till the Designated Date. On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds equivalent to the size of the Issue from the Escrow Accounts, as per the terms of the Escrow Agreement, into the Issue Account with the Banker(s) to the Issue. The balance amount after transfer to the Issue Account shall be held for the benefit of the Bidders who are entitled to refunds on the Designated Date, and not later than 15 days from the Bid Closing Date/Issue Closing Date, the Escrow Collection Bank(s) shall refund all monies to unsuccessful Bidders and also the excess amount paid on bidding, if any, after adjustment for allotment to the Bidders.

Each category of Bidders, i.e., QIB Bidders, Non-Institutional Bidders and Retail Individual Bidders, would be required to pay their applicable Margin Amount at the time of the submission of the Bid cum Application Form. The Margin Amount payable by each category of Bidders is mentioned in the section titled “Issue Structure” on page 203 of this Red Herring Prospectus. Where the Margin Amount applicable to the Bidder is less than 100% of the Bid Amount, any difference between the amount payable by the Bidder for Equity Shares allocated at the Issue Price and the Margin Amount paid at the time of Bidding, shall be payable by the Bidder not later than the Pay-in-Date, which shall be a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the BRLMs. If the payment is not made favouring the appropriate Escrow Account within the time stipulated above, the Bid of the Bidder is liable to be cancelled. However, if the applicable Margin Rate for Bidders is 100%, the full Bid Amount has to be paid at the time of submission of the Bid cum Application Form.

Where the Bidder has been allocated lesser number of Equity Shares than he or she had Bid for, the excess amount paid on bidding, if any, after adjustment for allocation, will be refunded to such Bidder within 15 days from the Bid Closing Date/Issue Closing Date, failing which we and shall pay interest at 15% per annum for any delay beyond the periods as mentioned above.

Electronic Registration of Bids

- (a) The Syndicate Member will register the Bids using the on-line facilities of NSE and BSE. There will be at least one on-line connectivity in each city, where a stock exchange is located in India and where Bids are being accepted.
- (b) NSE and BSE will offer a screen-based facility for registering Bids for the Issue. This facility will be available on the terminals of the Syndicate Member and its authorised agents during the Bidding Period/Issue Period. Syndicate Member can also set up facilities for off-line electronic registration of Bids subject to the condition that it will subsequently download the off-line data file into the on-line facilities for book building on an half hourly basis. On the Bid Closing Date/ Issue

Closing Date, the Syndicate Member shall upload the Bids till such time as may be permitted by the Stock Exchanges.

- (c) The aggregate demand and price for Bids registered on the electronic facilities of NSE and BSE will be downloaded on an half hourly basis, consolidated and displayed on-line at all bidding centers. A graphical representation of the consolidated demand and price would be made available at the bidding centers and the websites of the Stock Exchanges during the Bidding Period/Issue Period.
- (d) At the time of registering each Bid, the members of the Syndicate shall enter the following details of the investor in the on-line system:
- Name of the investor (Investors should ensure that the name given in the Bid cum Application form is exactly the same as the Name in which the Depository Account is held. In case, the Bid cum Application Form is submitted in joint names, investors should ensure that the Depository Account is also held in the same joint names and are in the same sequence in which they appear in the Bid cum Application Form.);
 - Investor Category –Individual, Corporate, FII, NRI or mutual fund, etc.;
 - Numbers of Equity Shares Bid for;
 - Bid price;
 - Bid cum Application Form number;
 - Whether payment is made upon submission of Bid cum Application Form; and
 - Depository Participant identification no. and client identification no. of the demat account of the Bidder.
- (e) A system generated TRS will be given to the Bidder as a proof of the registration of each of the bidding options. **It is the Bidder's responsibility to obtain the TRS from the members of the Syndicate.** The registration of the Bid by the member of the Syndicate does not guarantee that the Equity Shares shall be allocated either by the members of the Syndicate or our Company.
- (f) Such TRS will be non-negotiable and by itself will not create any obligation of any kind.
- (g) In case of QIB Bidders, the members of the Syndicate also have the right to accept the Bid or reject it without assigning any reason. In case of Bids under the Non-Institutional Portion and Bids under the Retail Portion, Bids would not be rejected except on the technical grounds listed in this Red Herring Prospectus.
- (h) It is to be distinctly understood that the permission given by NSE and BSE to use their network and software of the Online IPO system should not in any way be deemed or construed to mean that the compliance with various statutory and other requirements by us or the BRLMs are cleared or approved by NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the compliance with the statutory and other requirements nor does it take any responsibility for the financial or other soundness of our Company, our Promoter, our management or any scheme or project of our Company.
- (i) It is also to be distinctly understood that the approval given by NSE and BSE should not in any way be deemed or construed that this Red Herring Prospectus has been cleared or approved by the NSE and BSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the contents of this Red Herring Prospectus; nor does it warrant that the Equity Shares will be listed or will continue to be listed on the NSE and BSE.

Build Up of the Book and Revision of Bids

- (a) Bids registered by various Bidders through the Syndicate Member shall be electronically transmitted to the NSE or BSE mainframe on a half hourly basis.
- (b) The book gets built up at various price levels. This information will be available with the BRLMs on a half hourly basis.

- (c) During the Bidding Period, any Bidder who has registered his or her interest in the Equity Shares at a particular price level is free to revise his or her Bid within the Price Band using the printed Revision Form, which is a part of the Bid cum Application Form.
- (d) Revisions can be made in both the desired number of Equity Shares and the Bid price by using the Revision Form. Apart from mentioning the revised options in the Revision Form, the Bidder must also mention the details of all the options in his or her Bid cum Application Form or earlier Revision Form. For example, if a Bidder has Bid for three options in the Bid cum Application Form and he is changing only one of the options in the Revision Form, he must still fill the details of the other two options that are not being changed, in the Revision Form unchanged. Incomplete or inaccurate Revision Forms will not be accepted by the members of the Syndicate.
- (e) The Bidder can make this revision any number of times during the Bidding Period. However, for any revision(s) in the Bid, the Bidders will have to use the services of the same member of the Syndicate through whom he or she had placed the original Bid. **Bidders are advised to retain copies of the blank Revision Form and the revised Bid must be made only in such Revision Form (or copies thereof).**
- (f) Any revision of the Bid shall be accompanied by payment in the form of cheque or demand draft for the incremental amount, if any, to be paid on account of the upward revision of the Bid. The excess amount, if any, resulting from downward revision of the Bid would be returned to the Bidder at the time of refund in accordance with the terms of this Draft Red Herring Prospectus. In case of QIB Bidders, the members of the Syndicate shall collect the payment in the form of cheque or demand draft for the incremental amount in the QIB Margin Amount, if any, to be paid on account of the upward revision of the Bid at the time of one or more revisions by the QIB Bidders.
- (g) When a Bidder revises his or her Bid, he or she shall surrender the earlier TRS and get a revised TRS from the members of the Syndicate. **It is the responsibility of the Bidder to request for and obtain the revised TRS, which will act as proof of his or her having revised the previous Bid.**
- (h) Only bids that are uploaded on the online IPO system of the NSE and BSE shall be considered for allocation/ allotment. In the event of discrepancy of data between the bids registered on the online IPO system and the physical bid cum application form, the decision of the Company in consultation with the BRLMs, based on the physical records of Bid cum Application Forms, shall be final and binding on all concerned.

Price Discovery and Allocation

- (a) After the Bid Closing Date/Issue Closing Date, the BRLMs will analyse the demand generated at various price levels and discuss pricing strategy with the Company.
- (b) The Company, in consultation with the BRLMs, shall finalise the “Issue Price”, the number of Equity Shares to be Allotted and allotment to successful Bidders.
- (c) The allocation to QIBs of at least 50% of the Issue would be on a proportionate basis (with a minimum 5% allocation of the QIB Portion reserved for Mutual Funds, and such Mutual Funds can participate in the remaining 47.5% allocation for QIBs) in consultation with Designated Stock Exchange subject to valid bids being received at or above the Issue Price, in the manner as described in the section titled “Basis of Allotment – Allotment to QIB Bidders” on page 222. The allocation to Non Institutional Bidders and Retail Individual Bidders of up to 15% and up to 35% of the Issue, respectively, would be on a proportionate basis, in consultation with the Designated Stock Exchange and subject to valid Bids being received at or above the Issue Price.
- (d) Under subscription, if any, in the Retail and Non Institutional categories, would be allowed to be met with spill over of demand from any of the other categories or combination of categories, at the sole discretion of the Company, in consultation with the BRLMs. However, if the aggregate demand by Mutual Funds is less than 170,500 Equity Shares, the balance Equity Shares from the 5% specifically available for allocation to Mutual Funds in the QIB Portion will first be added to the QIB Portion and be allocated proportionately to the QIB Bidders in proportion to their Bids.

- (e) Allocation to Eligible NRIs, FIIs registered with SEBI or FVCIs registered with SEBI will be subject to applicable laws, rules, regulations, guidelines and approvals.
- (f) The BRLMs, in consultation with us, shall notify the members of the Syndicate of the Issue Price and allocations to their respective Bidders, where the full Bid Amount has not been collected from the Bidders.
- (g) The Company reserve the right to cancel the Issue any time after the Bid Opening Date/Issue Opening Date without assigning any reasons whatsoever, but before Allotment
- (h) In terms of SEBI Guidelines, QIB Bidders shall not be allowed to withdraw their Bid after the Bid Closing Date/Issue Closing Date.

Signing of Underwriting Agreement and Filing with the Designated Stock Exchange

- (a) The Company, the BRLMs and the Syndicate Member shall enter into an Underwriting Agreement on finalisation of the Issue Price and allocation(s) to the Bidders.
- (b) After signing the Underwriting Agreement, the Company would update and file the updated Red Herring Prospectus with the RoC, which then would be termed 'Prospectus'. The Prospectus would have details of the Issue Price, Issue size, underwriting arrangements and would be complete in all material respects.

Advertisement regarding Issue Price and Prospectus

A statutory advertisement will be issued by our Company after the filing of the Prospectus with the RoC. This advertisement, in addition to the information that has to be set out in the statutory advertisement, shall indicate the Issue Price. Any material updates between the date of Red Herring Prospectus and the date of Prospectus will be included in such statutory advertisement.

Issuance of CAN

1. Upon approval of the basis of allotment by the Designated Stock Exchange, the BRLMs or Registrar to the Issue shall send to the members of the Syndicate a list of their Bidders who have been allocated Equity Shares in the Issue. The approval of the basis of allocation by the Designated Stock Exchange for QIB Bidders may be done simultaneously with or prior to the approval of the basis of allocation for the Retail and Non-Institutional Bidders. However, investors should note that the Company shall ensure that the date of allotment of the Equity Shares to all investors in this Issue shall be done on the same date.
2. The Members of the Syndicate would then send the CAN to their Bidders who have been allocated Equity Shares in the Issue. The dispatch of a CAN shall be deemed a valid, binding and irrevocable contract for the Bidder to pay the entire Issue Price for all the Equity Shares allocated to such Bidder. Those Bidders who have not paid the full Bid Amount into the Escrow Account at the time of submitting the Bid cum Application Form shall pay the full amount into the Escrow Account on or prior to the Pay-in Date specified in the CAN.
3. Bidders who have been allocated Equity Shares and who have already paid the full Bid Amount into the Escrow Account at the time of submitting the Bid cum Application Form shall directly receive the CAN from the Registrar to the Issue subject, however, to realization of their cheque or demand draft paid into the Escrow Account. The dispatch of a CAN shall be deemed to be a valid, binding and irrevocable contract for the Bidder to pay the entire Issue Price for all the Equity Shares allotted to such Bidder.

Designated Date and Transfer of Funds to Public Issue Account

After the funds are transferred from the Escrow Account to the Public Issue Account on the Designated Date, the Company will allot/transfer the Equity Shares to the Allottees. Successful Bidders will receive credit for the Equity Shares directly in their Depository Accounts. Equity Shares will be allotted only in the

dematerialized form to the Allottees. Successful Bidders will have the option to rematerialize the Equity Shares so allotted/transferred if they so desire as per the provisions of the Companies Act and the Depositories Act.

The Company will ensure the Allotment within 15 days of the Bid/Issue Closing Date. After the funds are transferred from the Escrow Account to the Public Issue Account on the Designated Date, the Company will ensure that credit is given to the successful Bidders' depository accounts within two working days from the date of Allotment.

Investors are advised to instruct their Depository Participant to accept the Equity Shares that may be Allotted to them pursuant to this Issue.

GENERAL INSTRUCTIONS

Do's:

- Check if you are eligible to apply;
- Read all the instructions carefully and complete the Resident Bid cum Application Form (white in colour) or Non-Resident Bid cum Application Form (blue in colour), as the case may be;
- Ensure that the details about Depository Participant and Beneficiary Account are correct as allotment of Equity Shares will be in the dematerialized form only;
- Ensure that the name given in the Bid cum Application form is exactly the same as the Name in which the Depository Account is held. In case, the Bid cum Application Form is submitted in joint names, investors should ensure that the Depository Account is also held in the same joint names and are in the same sequence in which they appear in the Bid cum Application Form;
- Ensure that the Bids are submitted at the bidding centers only on forms bearing the stamp of a member of the Syndicate;
- Ensure that you have been given a TRS for all your Bid options;
- Submit revised Bids to the same member of the Syndicate through whom the original Bid was placed and obtain a revised TRS;
- Ensure that you mention your Permanent Account Number (PAN) allotted under the I.T. Act where the maximum Bid for Equity Shares by a Bidder is for a total value of Rs. 50,000 or more and attach a copy of the PAN Card and also submit a photocopy of the PAN card(s) or a communication from the Income Tax authority indicating allotment of PAN along with the application for the purpose of verification of the number, with the Bid cum Application Form. In case you do not have a PAN, ensure that you provide a declaration in Form 60 prescribed under the I.T. Act along with the application.; and
- **Investors should ensure that the name given in the Bid cum Application Form is exactly the same as the name in which the depository account is held. In case the Bid cum Application Form is submitted in joint names, investors should ensure that the depository account is also held in the same joint names and such joint names are in the same sequence in which they appear in the Bid cum Application Form.**
- Ensure that the Demographic Details (as defined hereinbelow) are updated, true and correct in all respects.

Don'ts:

- Do not Bid for lower than the minimum Bid size;

- Do not Bid/ revise Bid price to less than the lower end of the price band or higher than the higher end of the Price Band;
- Do not Bid on another Bid cum Application Form after you have submitted a Bid to the members of the Syndicate;
- Do not pay the Bid Amount in cash;
- Do not send Bid cum Application Forms by post; instead submit the same to a member of the Syndicate only;
- Do not Bid at Cut-off Price (for QIB Bidders, Non-Institutional Bidders, for whom the Bid Amount exceeds Rs. 100,000);
- Do not fill up the Bid cum Application Form such that the Equity Shares Bid for exceeds the Issue size and/or investment limit or maximum number of Equity Shares that can be held under the applicable laws or regulations or maximum amount permissible under the applicable regulations;
- Do not submit Bid accompanied with Stockinvest.

INSTRUCTIONS FOR COMPLETING THE BID CUM APPLICATION FORM

Bidders can obtain Bid cum Application Forms and/or Revision Forms from the members of the Syndicate.

Bids and Revisions of Bids

Bids and revisions of Bids must be:

- Made only in the prescribed Bid cum Application Form or Revision Form, as applicable (white colour for Resident Indians, blue colour for NRIs and FIIs and applying on repatriation basis).
- Completed in full, in BLOCK LETTERS in ENGLISH and in accordance with the instructions contained herein, in the Bid cum Application Form or in the Revision Form. Incomplete Bid cum Application Forms or Revision Forms are liable to be rejected.
- The Bids from the Retail Individual Bidders must be for a minimum of [●] Equity Shares and in multiples of [●] thereafter subject to a maximum Bid Amount of Rs. 100,000.
- For Non-institutional Bidders and QIB Bidders, Bids must be for a minimum of such number of Equity Shares that the Bid Amount exceeds Rs. 100,000 and in multiples of [●] Equity Shares thereafter. Bids cannot be made for more than the Issue size. Bidders are advised to ensure that a single Bid from them should not exceed the investment limits or maximum number of Equity Shares that can be held by them under the applicable laws or regulations.
- In single name or in joint names (not more than three, and in the same order as their Depository Participant details).
- Thumb impressions and signatures other than in the languages specified in the Eighth Schedule of the Constitution of India must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under official seal.

Bidder's Bank Account Details

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository the Bidders bank account details. **These bank account details would be printed on the refund order, if any, to be sent to Bidders. Hence, Bidders are advised to immediately update their bank account details as appearing on the records of the depository participant.** Please note that failure to do so could result in delays in credit of

refunds to Bidders at the Bidders sole risk and neither the BRLMs nor our Company shall have any responsibility and undertake any liability for the same.

Bidder's Depository Account Details

IT IS MANDATORY FOR ALL THE BIDDERS TO GET THEIR EQUITY SHARES IN DEMATERIALISED FORM. ALL BIDDERS SHOULD MENTION THEIR DEPOSITORY PARTICIPANT'S NAME, DEPOSITORY PARTICIPANT IDENTIFICATION NUMBER AND BENEFICIARY ACCOUNT NUMBER IN THE BID CUM APPLICATION FORM. INVESTORS MUST ENSURE THAT THE NAME GIVEN IN THE BID CUM APPLICATION FORM IS EXACTLY THE SAME AS THE NAME IN WHICH THE DEPOSITORY ACCOUNT IS HELD. IN CASE THE BID CUM APPLICATION FORM IS SUBMITTED IN JOINT NAMES, IT SHOULD BE ENSURED THAT THE DEPOSITORY ACCOUNT IS ALSO HELD IN THE SAME JOINT NAMES AND ARE IN THE SAME SEQUENCE IN WHICH THEY APPEAR IN THE BID CUM APPLICATION FORM.

Bidders should note that on the basis of name of the Bidders, Depository Participant's name, Depository Participant- Identification number and Beneficiary Account Number provided by them in the Bid cum Application Form, the Registrar to the Issue will obtain from the Depository demographic details of the Bidders such as address, bank account details for printing on refund orders and occupation ("Demographic Details"). Hence, Bidders should carefully fill in their Depository Account details in the Bid cum Application Form.

These Demographic Details would be used for all correspondence with the Bidders including mailing of the refund orders/ CANs/Allocation Advice and printing of bank particulars on the refund order and the Demographic Details given by Bidders in the Bid cum Application Form would not be used for these purposes by the Registrar. Hence, Bidders are advised to update their Demographic Details as provided to their Depository Participants and ensure that they are true and correct.

By signing the Bid cum Application Form, Bidder would have deemed to authorise the depositories to provide, upon request, to the Registrar to the Issue, the required Demographic Details as available on its records.

Refund Orders/Allocation Advice/CANs would be mailed at the address of the Bidder as per the Demographic Details received from the Depositories. Bidders may note that delivery of refund orders/allocation advice/CANs may get delayed if the same once sent to the address obtained from the Depositories are returned undelivered. In such an event, the address and other details given by the Bidder in the Bid cum Application Form would be used only to ensure dispatch of refund orders. Please note that any such delay shall be at the Bidders sole risk and neither we nor the BRLMs shall be liable to compensate the Bidder for any losses caused to the Bidder due to any such delay or liable to pay any interest for such delay.

In case no corresponding record is available with the Depositories that matches three parameters, namely, names of the Bidders (including the order of names of joint holders), the Depository Participant's identity (DP ID) and the beneficiary's identity, then such Bids are liable to be rejected.

Bids under Power of Attorney

In case of Bids made pursuant to a power of attorney or by limited companies, corporate bodies, registered societies, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of the Memorandum and Articles of Association and/or bye laws must be lodged along with the Bid cum Application Form. Failing this, we reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made pursuant to a power of attorney by FIIs, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of their SEBI registration certificate must be lodged along with the Bid cum Application Form. Failing this, the syndicate members reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made by insurance companies registered with the Insurance Regulatory and Development Authority, a certified copy of certificate of registration issued by Insurance Regulatory and Development Authority must be lodged along with the Bid cum Application Form. Failing this, we reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

In case of Bids made by provident funds with minimum corpus of Rs. 250 million and pension funds with minimum corpus of Rs. 250 million, a certified copy of certificate from a chartered accountant certifying the corpus of the provident fund/ pension fund must be lodged along with the Bid cum Application Form. Failing this, Company reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason.

The Company, in our absolute discretion, reserve the right to relax the above condition of simultaneous lodging of the power of attorney along with the Bid cum Application Form, subject to such terms and conditions that we and the BRLMs may deem fit.

The Company, in our absolute discretion, reserve the right to permit the holder of the power of attorney to request the Registrar that for the purpose of printing particulars on the refund order and mailing of the refund order/CANs/allocation advice, the Demographic Details given on the Bid cum Application Form should be used (and not those obtained from the Depository of the Bidder). In such cases, the Registrar shall use Demographic Details as given in the Bid cum Application Form instead of those obtained from the depositories.

Bids by NRIs

NRI bidders to comply with the following:

- Individual Eligible NRI Bidders can obtain the Bid cum Application Forms from the Company's registered office, Registrar to the Issue or BRLMs whose addresses are printed on the cover page of this prospectus.
- Eligible NRI Bidders may please note that only such bids as are accompanied by payment in free foreign exchange shall be considered for allotment under the NRI category. The NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the form meant for resident Indians.

Bids by Eligible NRIs, FIIs registered with SEBI/ FVCIs registered with SEBI/ Multilateral and Bilateral Development Financial Institutions on a repatriation basis

Bids and revision to Bids must be made:

- On the Bid cum Application Form or the Revision Form, as applicable (blue in color), and completed in full in BLOCK LETTERS in ENGLISH in accordance with the instructions contained therein.
- In a single name or joint names (not more than three).
- By Eligible NRIs -Bids for a Bid Amount of up to Rs.100,000 would be considered under the Retail Portion for the purposes of allocation and Bids for a Bid Amount of more than Rs.100,000 would be considered under Non Institutional Bidder Portion for the purposes of allocation;

By FIIs/FVCIs — for a minimum of such number of Equity Shares and in multiples of [●] thereafter that the Bid Amount exceeds Rs.100,000 for further details see "Issue Procedure - Maximum and Minimum Bid Size" on page 207 of this Draft red Herring Prospectus.

- In the names of individuals, or in the names of FIIs, or in the names of foreign venture capital funds, multilateral and bilateral development financial institutions, but not in the names of minors, firms or partnerships, foreign nationals (including NRIs) or their nominees, foreign venture capital investors.
- Refunds, dividends and other distributions, if any, will be payable in Rupees only and net of bank charges and/or commission. In case of Bidders who remit money through Rupee drafts purchased abroad, such payments in Rupees will be converted into U.S. Dollars or any other freely convertible currency as may be permitted by RBI at the rate of exchange prevailing at the time of

remittance and will be dispatched by registered post or if the Bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid cum Application Form. We will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency.

It is to be distinctly understood that there is no reservation for NRIs and FIIs. All NRIs and FIIs will be treated on the same basis with other categories for the purpose of allocation.

Payment Instructions

The Company shall open Escrow Accounts with the Escrow Collection Bank(s) for the collection of the Bid Amounts payable upon submission of the Bid cum Application Form and for amounts payable pursuant to allocation in the Issue.

Each Bidder shall draw a cheque or demand draft for the amount payable on the Bid and/or on allocation as per the following terms:

(a) Payment into Escrow Account

- The Bidders for whom the applicable Margin Amount is equal to 100% shall, with the submission of the Bid cum Application Form draw a payment instrument for the Bid Amount in favour of the Escrow Account and submit the same to the members of the Syndicate.
- In case the above Margin Amount paid by the Bidders during the Bidding Period is less than the Issue Price multiplied by the Equity Shares allocated to the Bidder, the balance amount shall be paid by the Bidders into the Escrow Account within the period specified in the CAN which shall be subject to a minimum period of two days from the date of communication of the allocation list to the members of the Syndicate by the BRLMs.
- In case the payment of the Bid Amount has been waived by a member of the Syndicate during the Bidding/Issue Period, on receipt of the CAN, an amount equal to the Issue Price multiplied by the Equity Shares allocated to the Bidder, shall be paid by the Bidders into the Escrow Account within the period specified in the CAN which shall be a minimum period of two days from the date of communications of the allocation list to the members of the Syndicate by the BRLMs.
- The payment instruments for payment into the Escrow Account should be drawn in favour of:
 - o In case of QIB Bidders: “Escrow Account QIB –ROHL - Public Issue – Repatriable”
 - o In case of QIB Bidders: “Escrow Account QIB –ROHL - Public Issue – Non Repatriable”
 - o In case of Resident Retail and Non Institutional Bidders: “Escrow Account — ROHL Public Issue”
 - o In case of Non Resident Retail and Non Institutional Bidders: “Escrow Account —ROHL Public Issue – Non Repatriable”

In case of bids by NRIs applying on a repatriation basis, the payments must be made through Rupee drafts purchased abroad or cheques or bank drafts, for the amount payable on application remitted through normal banking channels or out of funds held in the NRE Accounts or the Foreign Currency Non-Resident Accounts, maintained with banks authorised to deal in foreign exchange in India, along with documentary evidence in support of the remittance. Payment will not be accepted out of Non Resident Ordinary (NRO) Account of the Non Resident Bidder bidding on a repatriation basis. Payment by drafts should be accompanied by bank certificate confirming that the draft has been issued by debiting to the NRE Account or the Foreign Currency Non-Resident Account.

In case of Bids by Eligible NRIs applying on non-repatriation basis, the payments must be made through Indian Rupee Drafts purchased abroad or cheques or bank drafts, for the

amount payable on application remitted through normal banking channels or out of funds held in Non-Resident External (NRE) Accounts or Foreign Currency Non-Resident (FCNR) Accounts, maintained with banks authorized to deal in foreign exchange in India, along with documentary evidence in support of the remittance or out of a Non-Resident Ordinary (NRO) Account of a Non-Resident Bidder bidding on a non-repatriation basis. Payment by drafts should be accompanied by a bank certificate confirming that the draft has been issued by debiting an NRE or FCNR or NRO Account.

In case of Bids by FIIs/FVCIs/multilateral and bilateral financial institutions, the payment should be made out of funds held in a Special Rupee Account along with documentary evidence in support of the remittance. Payment by drafts should be accompanied by a bank certificate confirming that the draft has been issued by debiting the Special Rupee Account.

- Where a Bidder has been allocated a lesser number of Equity Shares than the Bidder has Bid for, the excess amount, if any, paid on bidding, after adjustment towards the balance amount payable on the Equity Shares allocated, will be refunded to the Bidder from the Escrow Accounts.
- The monies deposited in the Escrow Account will be held for the benefit of the Bidders till the Designated Date.
- On the Designated Date, the Escrow Collection Bank(s) shall transfer the funds from the Escrow Account as per the terms of the Escrow Agreement into the Issue Account with the Banker to the Issue.
- On the Designated Date and no later than 15 days from the Bid Closing Date/Issue Closing Date, the Escrow Collection Bank(s) shall also refund all amounts payable to unsuccessful Bidders and also the excess amount paid on Bidding, if any, after adjusting for allocation to the Bidders

Payments should be made by cheque, or demand draft drawn on any bank (including a Co-operative bank), which is situated at, and is a member of or sub-member of the bankers' clearing house located at the centre where the Bid cum Application Form is submitted. Outstation cheques/bank drafts drawn on banks not participating in the clearing process will not be accepted and applications accompanied by such cheques or bank drafts are liable to be rejected. Cash/stockinvest/money orders/postal orders will not be accepted.

Payment by Stockinvest

In terms of RBI Circular DBOD No. FSC BC 42/24.47.001/2003-04 dated November 5, 2003, the option to use the stockinvest instrument for payment of the Bid money was withdrawn. Accordingly, payment through stockinvest will not be accepted in this Issue.

Submission of Bid cum Application Form

All Bid cum Application Forms or Revision Forms duly completed and accompanied by account payee cheques or drafts shall be submitted to the members of the Syndicate at the time of submission of the Bid cum Application Forms. A member of the Syndicate may, at its discretion, waive the requirement of payment at the time of submission of the Bid cum Application Form and the Revision Form in the case of QIB Bidders, provided however that for QIB Bidders the Syndicate Member shall collect the QIB Margin and deposit the same in a specified escrow account.

The collection centre of the members of the Syndicate will acknowledge the receipt of the Bid cum Application Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid cum Application Form for the records of the Bidder. No separate receipts shall be issued for the money paid on the submission of Bid cum Application Form or Revision Form.

Other Instructions

Joint Bids in the case of Individuals

Individuals may make bids in single or joint names (not more than three). In the case of joint Bids, all refund amounts will be made only in favor of the Bidder whose name appears first in the Bid cum Application Form or Revision Form ("First Bidder"). All communications will be addressed to the First Bidder and will be dispatched to his or her address.

Multiple Bids

A Bidder should submit only one Bid (and not more than one) for the total number of Equity Shares required. Two or more Bids will be deemed to be multiple Bids if the sole or First Bidder is one and the same.

In case of a mutual fund, a separate Bid can be made in respect of each scheme of the mutual fund registered with SEBI and such Bids in respect of more than one scheme of the mutual fund will not be treated as multiple Bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.

The Company reserves the right to reject, in its absolute discretion, all or any multiple Bids in all or any categories.

PAN or GIR Number

Where the Bid is for Rs.50,000 or more, the Bidder or in the case of a Bid in joint names, each of the Bidders, should mention his/her PAN allotted under the I.T. Act. **The copy of the PAN card or PAN allotment letter is required to be submitted with the application form.** Applications without this information and documents will be considered incomplete and are liable to be rejected. **It is to be specifically noted that Bidders should not submit the GIR number instead of the PAN, as the Bid is liable to be rejected on this ground.** In case the sole/First Bidder and joint Bidder(s) is/are not required to obtain PAN, each of the Bidder(s) shall mention "Not Applicable" and in the event that the sole Bidder and/or the joint Bidder(s) have applied for PAN which has not yet been allotted each of the Bidder(s) should mention "Applied for" in the Bid cum Application Form. Further, where the Bidder(s) has mentioned "Applied for" or "Not Applicable", the sole/First Bidder and each of the joint Bidder(s), as the case may be, would be required to submit Form 60 (form of declaration to be filed by a person who does not have a permanent account number and who enters into any transaction specified in Rule 114B of the Income Tax Rules, 1962), or, Form 61 (form of declaration to be filed by a person who has agricultural income and is not in receipt of any other income chargeable to income-tax in respect of transactions specified in Rule 114B of the Income Tax Rules, 1962), as may be applicable, duly filled along with a copy of any one of the following documents in support of the address: (a) ration card (b) passport (c) driving license (d) identity card issued by any institution (e) copy of the electricity bill or telephone bill showing residential address (f) any document or communication issued by any authority of the Central Government, State Government or local bodies showing residential address (g) any other documentary evidence in support of address given in the declaration. **It may be noted that Form 60 and Form 61 have been amended vide a notification issued on December 1, 2004 by the Central Board of Direct Taxes, Department of Revenue, Ministry of Finance. All Bidders are requested to furnish, where applicable, the revised Form 60 or Form 61 as the case may be.**

Unique Identification Number ("UIN")

Through its circular MAPIN/Cir-13/2005, with effect from July 1, 2005, SEBI has suspended all fresh registrations for obtaining a Unique Identification Number ("UIN") and the requirement to provide or quote a UIN under the SEBI MAPIN Regulations.

Right to Reject Bids

The BRLMs may reject any QIB Bid procured by any or all members of the Syndicate provided the rejection is at the time of receipt of such Bid and the reason for rejection of the Bid is communicated to the Bidder at the time of rejection of the Bid. In case of Non Institutional Bidders, Retail Individual Bidders and Bidders in the Employee Reservation Portion, the Company will have the right to reject Bids only on

technical grounds. Consequent refunds shall be made by cheque or pay order or draft and will be sent to the Bidder's address at the Bidder's risk.

Grounds for Technical Rejections

Bidders are advised to note that Bids are liable to be rejected on among others on the following technical grounds:

- o Amount paid does not tally with the amount payable for the highest value of Equity Shares bid for;
- o Bank account details (for refund) are not given;
- o Age of First Bidder not given;
- o Bids by minors;
- o PAN or GIR Number not given if Bid is for Rs.50,000 or more;
- o Bids for lower number of Equity Shares than specified for that category of investor;
- o Bids at a price less than the floor of the Price Band and higher than the cap of the Price Band;
- o Bids at Cut-off price where the Bid Amount exceeds Rs.100,000;
- o Bids for number of Equity Shares, which are not multiples of [●];
- o Category not ticked;
- o Multiple Bids;
- o In case of Bid under power of attorney or by limited companies, corporate, trust, etc., relevant documents are not submitted;
- o Bid cum Application Form does not have the stamp of a member of the Syndicate;
- o Bid cum Application Form does not have the Bidder's depository account details, including as specified below;
- o Bid cum Application Forms are not submitted by the Bidders within the time prescribed as per the Bid cum Application Form, Bid/Issue Opening Date advertisement and this Draft Red Herring Prospectus and as per the instructions in this Draft Red Herring Prospectus and the Bid cum Application Form;
- o Bids for amounts greater than the maximum permissible amounts prescribed by the applicable regulations;
- o Bids not duly signed by the sole/joint Bidders;
- o Bids by OCBs;
- o Bids accompanied by stockinvest/cash/money order;
- o Bids by U.S. residents or U.S. persons other than "qualified institutional buyers" as defined in Rule 144A of the U.S. Securities Act of 1933;
- o In case no corresponding record is available with the Depositories that matches three parameters, i.e., name of the Bidder (including the sequence of names of joint holders), the depository participant's ID (DP ID) and the beneficiary's identity; and

- o Bids by persons who are not eligible to acquire Equity Shares of the Company, in terms of all applicable laws, rules, regulations, guidelines and approvals.
- o Bids that are not accompanied by the applicable Margin Amount.

Basis of Allotment

A. For Retail Individual Bidders

- Bids received from the Retail Individual Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The allotment to all the successful Retail Individual Bidders will be made at the Issue Price.
- The Issue size less allotment to Non-Institutional Bidders and QIB Bidders shall be available for allotment to Retail Individual Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- If the aggregate demand in this portion is less than or equal to 2,387,000 Equity Shares at or above the Issue Price, full allotment shall be made to the Retail Individual Bidders to the extent of their demand.
- If the aggregate demand in this category is greater than 2,387,000 Equity Shares at or above the Issue Price, the allocation shall be made on a proportionate basis up to a minimum of [●] Equity Shares and in multiples of [●] Equity Shares thereafter. For the method of proportionate basis of allocation, refer below.

B. For Non-Institutional Bidders

- Bids received from Non-Institutional Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The allotment to all successful Non-Institutional Bidders will be made at the Issue Price.
- The Issue size less allocation to QIB Bidders and Retail Individual Bidders shall be available for allocation to Non-Institutional Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price.
- If the aggregate demand in this category is less than or equal to 1,023,000 Equity Shares at or above the Issue Price, full allotment shall be made to Non-Institutional Bidders to the extent of their demand.
- In case the aggregate demand in this category is greater than 1,023,000 Equity Shares at or above the Issue Price, allocation shall be made on a proportionate basis up to a minimum of [●] Equity Shares and in multiples of 1 Equity Shares thereafter. For the method of proportionate basis of allocation refer below.

C. For QIB Bidders

- Bids received from the QIB Bidders at or above the Issue Price shall be grouped together to determine the total demand under this portion. The allocation to all the QIB Bidders will be made at the Issue Price.
- The QIB Portion shall be available for allocation to QIB Bidders who have bid in the Issue at a price that is equal to or greater than the Issue Price..
- Allotment shall be undertaken in the following manner:
 - (a) In the first instance allocation to Mutual Funds for 5% of the QIB Portion shall be determined as follows;
 - (i) In the event that Mutual Fund Bids exceeds 5% of the QIB Portion, allocation to Mutual Funds shall be done on a proportionate basis for 5% of the QIB Portion.
 - (ii) In the event that the aggregate demand for Mutual Funds is less than 5% of the QIB Portion then all Mutual Funds shall get full allotment to the extent of valid bids received above the Issue Price.

- (iii) Equity Shares remaining unsubscribed, if any, not allocated to Mutual Funds shall be available to all QIB Bidders as set out in (b) below;
- (b) In the second instance allocation to all QIBs shall be determined as follows:
 - (i) In the event that the oversubscription in the QIB Portion, all QIB Bidders who have submitted Bids above the Issue Price shall be allotted Equity Shares on a proportionate basis for up to 95% of the QIB Portion.
 - (ii) Mutual Funds, who have received allocation as per (a) above, for less than the number of Equity Shares Bid for by them, are eligible to receive Equity Shares on a proportionate basis along with other QIB Bidders.
 - (iii) Under-subscription below 5% of the QIB Portion, if any, from Mutual Funds, would be included for allocation to the remaining QIB Bidders on a proportionate basis.
- (c) The aggregate allocation to QIB Bidders shall be up to 3,410,000 Equity Shares.

Method of proportionate basis of allocation in the Retail, Non-Institutional and QIB Portions

Bidders will be categorized according to the number of Equity Shares applied for by them.

- (a) The total number of Equity Shares to be allotted to each portion as a whole shall be arrived at on a proportionate basis, being the total number of Equity Shares applied for in that portion (number of Bidders in the portion multiplied by the number of Equity Shares applied for) multiplied by the inverse of the over-subscription ratio.
- (b) Number of Equity Shares to be allotted to the successful Bidders will be arrived at on a proportionate basis, being the total number of Equity Shares applied for by each Bidder in that portion multiplied by the inverse of the over-subscription ratio.
- (c) If the proportionate allotment to a Bidder is a number that is more than [●] but is not a multiple of one (which is the market lot), the decimal would be rounded off to the higher whole number if that decimal is 0.5 or higher. If that number is lower than 0.5, it would be rounded off to the lower whole number. Allotment to all Bidders in such categories would be arrived at after such rounding off.
- (d) In all Bids where the proportionate allotment is less than [●] Equity Shares per Bidder, the allotment shall be made as follows:
 - Each successful Bidder shall be Allotted a minimum of [●] Equity Shares; and
 - The successful Bidders out of the total Bidders for a portion shall be determined by draw of lots in a manner such that the total number of Equity Shares Allotted in that portion is equal to the number of Equity Shares calculated in accordance with (b) above; and
 - Each successful Bidder shall be Allotted a minimum of [●] Equity Shares.
- (e) If the Equity Shares allocated on a proportionate basis to any portion are more than the Equity Shares allotted to the Bidders in that portion, the remaining Equity Shares available for allotment shall be first adjusted against any other portion, where the Equity Shares are not sufficient for proportionate allotment to the successful Bidders in that portion. The balance Equity Shares, if any, remaining after such adjustment will be added to the portion comprising Bidders applying for minimum number of Equity Shares.

Equity Shares in Dematerialised Form with NSDL or CDSL

In terms of Section 68B of the Companies Act, the Equity Shares in this Issue shall be allotted only in dematerialized form (i.e., not in the form of physical certificates but be fungible and be represented by the statement issued through electronic mode).

In this context, two agreements have been signed among our Company, the respective Depositories and the Registrar to the Issue:

- a tripartite agreement dated [●], 2005 with NSDL, us and Registrar to the Issue; and
- a tripartite agreement dated [●], 2005 with CDSL, us and Registrar to the Issue. This is to be executed prior to the filing of the Red Herring Prospectus with the RoC.

All Bidders can seek allotment only in dematerialised mode. Bids from any Bidder without relevant details of his or her depository account are liable to be rejected.

- A Bidder applying for Equity Shares must have at least one beneficiary account with either of the Depository Participants of either NSDL or CDSL prior to making the Bid.
- The Bidder must necessarily fill in the details (including the Beneficiary Account Number and Depository Participant's identification number) appearing in the Bid cum Application Form or Revision Form.
- Equity Shares allotment to a Bidder will be credited in electronic form directly to the beneficiary account (with the Depository Participant) of the Bidder.
- Names in the Bid cum Application Form or Revision Form should be identical to those appearing in the account details in the Depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the Depository.
- Non-transferable allotment advice or refund orders will be directly sent to the Bidders by the Registrar.
- If incomplete or incorrect details are given under the heading 'Bidders Depository Account Details' in the Bid cum Application Form or Revision Form, it is liable to be rejected.
- The Bidder is responsible for the correctness of his or her Demographic Details given in the Bid cum Application Form vis-à-vis those with his or her Depository Participant.
- It may be noted that Equity Shares in electronic form can be traded only on the stock exchanges having electronic connectivity with NSDL and CDSL. All the Stock Exchanges where our Equity Shares are proposed to be listed have electronic connectivity with CDSL and NSDL.
- The trading of the Equity Shares of our Company would be in dematerialised form only for all investors in the demat segment of the respective Stock Exchanges.

Communications

All future communications in connection with Bids made in this Issue should be addressed to the Registrar to the Issue quoting the full name of the sole or First Bidder, Bid cum Application Form number, details of Depository Participant, number of Equity Shares applied for, date of Bid form, name and address of the member of the Syndicate where the Bid was submitted and cheque or draft number and issuing bank thereof.

Undertakings by the Company

We undertake as follows:

- that the complaints received in respect of this Issue shall be attended to by us expeditiously and satisfactorily;

- that all steps will be taken for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges where the Equity Shares are proposed to be listed within seven working days of finalisation of the basis of allocation;
- that the funds required for dispatch of refund orders or allotment advice by registered post or speed post shall be made available to the Registrar to the Issue by us;
- that the refund orders or allotment advice to the successful Bidders shall be dispatched within specified time; and
- that no further issue of Equity Shares shall be made till the Equity Shares offered through the Red Herring Prospectus are listed or until the Bid monies are refunded on account of non-listing, under-subscription etc.

We shall not have recourse to the Issue proceeds until the approval for trading of the Equity Shares from all the Stock Exchanges where listing is sought has been received.

Utilisation of Issue Proceeds

The Board of Directors of the Company certifies that:

- all monies received out of the Issue to the public shall be transferred to a separate bank account other than the bank account referred to in sub-section (3) of Section 73 of the Companies Act;
- details of all monies utilised out of the Issue shall be disclosed under an appropriate separate head in the balance sheet of our Company indicating the purpose for which such monies have been utilised;
- details of all unutilised monies out of the Issue, if any, shall be disclosed under the appropriate separate head in the balance sheet of our Company indicating the form in which such unutilised monies have been invested;
- The Company shall not have any recourse to the Issue proceeds until the approval for trading the Equity Shares is received from the Stock Exchanges.

Disposal of Applications and Applications Money and Interest in Case of Delay in Dispatch of Allotment Letters/Refund Orders

The Company shall ensure dispatch of allotment advice, refund orders and give benefit to the beneficiary account with Depository Participants and submit the documents pertaining to the allotment to the Stock Exchanges within two working days of date of finalisation of allotment of Equity Shares. The Company shall dispatch refund orders, if any, of value up to Rs. 1,500, "Under Certificate of Posting", and shall dispatch refund orders above Rs. 1,500, if any, by registered post only at the sole or First Bidder's sole risk and adequate funds for the purpose shall be made available to the Registrar by us. .

The Company shall use best efforts to ensure that all steps for completion of the necessary formalities for listing and commencement of trading at the Stock Exchanges where the Equity Shares are proposed to be listed, are taken within seven working days of finalisation of the basis of allotment.

In accordance with the requirements of the Stock Exchanges and SEBI Guidelines, the Company further undertake that:

- Allotment shall be made only in dematerialised form within 15 days of the Bid Closing Date/Issue Closing Date;
- dispatch refund orders within 15 days of the Bid Closing Date/Issue Closing Date would be ensured; and
- it shall pay interest at 15% per annum (for any delay beyond the 15 day time period as mentioned above), if allotment is not made and refund orders are not dispatched and/or demat credits are not made to investors within the 15 day time prescribed above as per the guidelines issued by the Government of India, Ministry of Finance pursuant to their letter No. F/8/S/79 dated July 31, 1983, as amended by their letter No. F/14/SE/85 dated September 27, 1985, addressed to the Stock Exchanges, and as further modified by SEBI's Clarification XXI dated October 27, 1997, with respect to the SEBI Guidelines.

Refunds will be made by cheques, pay orders or demand drafts drawn on the Escrow Collection Bank(s) and payable at par at places where Bids are received. Bank charges, if any, for cashing such cheques, pay orders or demand drafts at other centers will be payable by the Bidders.

RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES

Foreign investment in Indian securities is regulated through the Industrial Policy, 1991 of the Government of India and FEMA. While the Industrial Policy, 1991 prescribes the limits and the conditions subject to which foreign investment can be made in different sectors of the Indian economy, FEMA regulates the precise manner in which such investment may be made. Under the Industrial Policy, unless specifically restricted, foreign investment is freely permitted in all sectors of the Indian economy up to any extent and without any prior approvals, but the foreign investor is required to follow certain prescribed procedures for making such investment. As per current foreign investment policies, foreign investment in the hotel and tourism sector is permitted up to 100% under the automatic route. By way of Circular No. 53 dated December 17, 2003, RBI has permitted FIIs to subscribe to shares of an Indian company in a public offer without prior RBI approval, so long as the price of equity shares to be issued is not less than the price at which equity shares are issued to residents. Non-resident Bidders are not required to make separate applications seeking permission from the FIPB or RBI.

No person shall make a Bid in pursuance of this Issue, unless such person is eligible to acquire Equity Shares of the Company in accordance with applicable laws, rules, regulations, guidelines and approvals.

The above information is given for the benefit of the Bidders and neither our Company nor the BRLMs is liable for any changes in the regulations after the date of this Draft Red Herring Prospectus.

MAIN PROVISIONS OF THE ARTICLES OF ASSOCIATION

FURTHER ISSUE OF CAPITAL

3. (a) The Company may, by a resolution passed in a General Meeting, from time to time increase the share capital by the creation of new shares of such amount as may be deemed expedient and specified in the resolution, subject to compliance with the provision of the Act and of any other laws that may be in force.

The new shares shall be issued upon such terms and conditions and with such rights shares may be issued and privileges attached thereto as are consistent with provisions of the Act and which (whether preferential or not) the General Meeting, resolving upon the creation thereof shall direct and if no direction be given, as the Directors shall determine, and in particular such shares may be issued with a preferential or qualified right to dividends and in the distribution of assets of the Company and with a special or without any right of voting.

- (b) Before the issue of any new shares, the Company in General Meeting may make provisions as to the allotment and issue of the new shares, and in particular may determine that the same shall be offered in the first instance either at par or at a premium and, in default of any such provisions, or so far as the same shall not extend, the Directors shall comply with the provisions of Section 81 of the Act.

Except so far as otherwise provided by the condition of issue or by these presents, with shares in original capital any capital raised by the creation of new shares shall be considered as part of the original capital and shall be subject to the provisions herein contained with reference to the payment of calls and installments, transfer and transmission, forfeiture, lien and otherwise.

- (c) The Company may by Ordinary Resolution:
- (i) Consolidate and divide its shares or any of them into shares of larger amount than its existing shares
 - (ii) Sub-divided its existing shares or any of them into shares of smaller amount than is fixed originally by the Memorandum of Association, so however that in the subdivision the proportion between the amount paid and the amount, if any unpaid on each reduced share be the same as it was in the case of the share from which the reduced share is derived and other conditions, if any laid down by these Articles.
 - (iii) Cancel any shares which at the date of the passing of the ordinary resolution, have not been taken or agreed to be taken by any person and also may diminish the amount of its share capital by the amount of the shares so cancelled.
- (d) The Company shall file with the Registrar Notice of exercise of any power referred to in sub clauses (i), (ii) or (iii) of Clause (1) of this Article within thirty days from the exercise thereof.
- (e) The resolution whereby any share is sub-divided may determine that, as between the and ordinary holders of the shares resulting from such sub-division one or more of such shares shall have some preference or special advantage as regards dividend, capital, voting or otherwise over or as compared with other or others, subject, nevertheless, to the provisions of Section 94 of the Act.
- (f) Company may, from time to time, by special resolution reduce its share capital or any share premium account in any manner and with, and subject to any incident authorized and consent required by law.
- (g) Subject to the provisions of Section 79 of the Act any debenture, debenture-stock or with special privileges other securities may be issued at a discount, premium or otherwise and

may be issued on condition that they shall be convertible into shares of any denomination and with any privileges and conditions as to redemption, surrender, drawing, allotment of shares, attending (but not voting) at the General Meeting, appointment of Directors and otherwise. Debentures with the right to conversion into or allotment of shares shall be issued only with the consent of the Company in the General Meeting by a Special Resolution.

- (h) Nothing in this clause shall apply to increase of the subscribed capital of the Company caused by the exercise of an option attached to debentures issued on loans raised by the Company to convert such debentures on loans into shares of the Company or to subscribe for shares in the Company provided that the terms of issue of such debentures or terms of such loans including a term providing for such option and such term either has been approved by a special resolution passed by the Company in general meeting before the issue of debentures or the raising of the loans and also either has been approved by the Central Government before the issue of the debentures on the raising of the loans or is in conformity with the rules, if any made by that Government in this behalf.
4. Subject to the provisions of these Articles and of the Act, the shares shall be under the direct control of the Directors, who may allot or otherwise dispose of the same to such persons on such terms and conditions and at such time as the Directors think fit and (subject to the provisions of Section 78 and 79 of the Act) either at a premium or at par or at discount provided that option or right to call of shares shall not be given to any person without the sanction of the Company in general meeting.
5. Any application signed by or on behalf of any applicant for shares in the Company following by an allotment of any share shall be an acceptance of shares within the meaning of these Articles and every person who thus or otherwise accepts any share and whose name is on the Register shall for the purpose of these Articles be a member.
6. The money, if any, which the Board shall on allotment of any shares being allotted by them require or direct to be paid by way of deposit, call or otherwise in respect of any shares allotted by them shall immediately on the inscription of the name of the allottee in the Register of members as the name of the holder of such shares, shall become a debt due to and recoverable by the Company from the allottee thereafter and shall be paid by him accordingly.
7. Except as required by law or ordered by a court of competent jurisdiction no person shall be recognised by the Company as holding any share on trust and the Company shall not be bound or compelled in any way to recognise any benami, equitable, contingent, future or potential interest in any share or any interest in any fractional part of a share (except only by these presents or by law otherwise provided) or any other rights in respect of any share, except in any absolute right to the entirety thereof in the register altered.
8. The rights attached to each class of shares (unless otherwise provided by the terms by issue of the shares of that class) may, subject to the provisions of Sections 186 and 187, of the Act be varied with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the issued shares of that class. To every such separate meeting, the provisions of these Articles relating to General meetings shall mutatis mutandis apply, except that the necessary quorum shall be two persons holding or representing by proxy one-third of the issued shares of the class.
9.
 - (1) The Directors may allot and issue shares in the capital of the Company as payment or part payment for any property sold or transferred, goods or machinery and appliances supplied, or for services rendered to the Company acquisition and or conduct of its business; and any shares which may be so allotted, may be issued as fully paid up shares, and if so issued, shall be deemed to be fully paid up shares.
 - (2) The said power vested in the Board by this Article shall not be exercised except by the unanimous consent of all the Directors or with the previous sanction of a special resolution passed at a General Meeting of the Company.

10. Where two or more persons are registered as joint holders of any share, they shall be deemed to hold the same as joint tenants with benefit or survivorship subject to the provisions following:
- (a) The person whose name stands first on the register in respect of such share shall alone be entitled to delivery of certificate thereof;
 - (b) Anyone of such persons may give effectual receipts for any dividend, bonus or return of capital payable in respect of such share, and such joint holder shall be severally, as well as jointly liable for payment of all instalments and calls due in respect of such share/shares.
 - (c) Any one of such persons may vote at any meeting either personally or by proxy in respect of such shares, as if he were solely entitled thereto, and if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share, shall alone be entitled to vote in respect thereof; several executors or administrators, of a deceased member in whose names any share stands shall for the purpose of this Article, be deemed joint holders, thereof.
 - (d) In case of death of anyone or more of such joint holders, the survivors shall be only persons recognised by the Company as having any title to or interest in such share, but the directors may require such evidence of death as they may deem fit; and nothing herein contained shall be taken to release the estate of a deceased joint holder from any liability of shares held by him jointly with any other person.
 - (e) All notices directed to be given to the members shall be given to which ever of such persons is named first in the register and notice so given shall be sufficient notice to all the holders of such shares.
11. The Company shall have a first and paramount lien upon all the shares (other than fully paid up shares) registered in the name of each member (whether solely or jointly with others upon the proceeds of sale thereof for all moneys whether presently payable or not) called or payable at a fixed time in respect of such shares and no equitable interest in any share shall be treated except upon the footing and condition that this Article will have full effect, and such lien shall extend to all dividends and bonuses from time to time declared in respect of such shares. Unless otherwise agreed registration of a transfer of shares will operate as a waiver of the Company's lien if any on such shares. The Directors may at any time declare any shares wholly or in part to be exempt from the provisions of this clause.
12. For the purpose of enforcing such lien, the Board may sell the shares subject thereto in such manner as they think fit but no sale shall be made until expiration of 14 days after a notice in writing stating and demanding payment of such amount in respect of which the lien exists has been given to the registered holder of the shares for the time being, or to the person entitled to the shares by reason of the death, or insolvency of the registered holder.
13. To give effect to such sale; the Board of Directors may authorise some person to transfer the shares sold to the purchaser thereof and the purchaser shall be registered as the holder of the shares comprised in any such transfer. The purchaser shall neither be bound to see to the application of the purchase money, nor will his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.
14. (1) The net proceeds of any such sale shall be received by the Company and applied in payment of such part of the amount in respect of which the lien exists as is -presently payable.
- (2) The residue, if any, shall subject to a like lien for sums not presently payable as existed upon the shares before the sale; be paid to the person entitled to the shares at the date of the sale.

15. Any money due from the Company to a shareholder, may without the consent of such shareholder be applied by the Company in or towards payment of any money due from him, either alone or jointly with any other person to the Company in respect of call or otherwise.

CALLS ON SHARES

16. Subject to the provisions of Section 91 of the Act, the Board of Directors may from time to time make such calls as they think fit upon the members in respect of all moneys unpaid on the shares held by them respectively and not by the conditions of allotment thereof made payable at fixed times, and each member shall pay the amount of every call so made on him to the persons and at the date, time and place or at the dates, times and places appointed by the Board of Directors.
17. The Board of Directors, may when making a call by resolution, determine the date on which such call shall be deemed to have been made not being earlier than the date of resolution making such call and thereupon the call shall be deemed to have been made on the date so determined and if no such date is fixed the call shall be deemed to have been made on the date on which the resolution of the Board making the call was passed.
18. Not less than fourteen days notice of any call shall be given specifying the date, time and place of payment of such call. The Directors may, by notice in writing to the members, extend the time for payment thereof.
19. If by the terms of issue of any share or otherwise any amount is made payable at any fixed date or by instalments at fixed date whether on account of the share or by way of premium, every such amount or instalment shall be payable as if it were a call duly made by the Directors and of which due notice had been given, and all the provisions herein contained in respect of calls shall relate to such amount or instalment accordingly.
20. (1) If a sum called in respect of the shares is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum at such rate fixed by the Board of Directors from the day appointed for the payment thereof to the time of actual payment, but the Board of Directors shall be at liberty to waive payment of that interest wholly or in part.
- (2) The provisions of this Article as to payment of interest shall apply in the case of non-payment of any sum which by the terms of issue of a share, become payable at a fixed date, whether on account of the share or by way of premium, as if the same had become payable by virtue of a call duly made and notified.
21. The Board of Directors may if they think fit, receive from any member willing to advance the same, all or any part of the monies uncalled and unpaid upon any share held by him and upon all or any part of the moneys so advanced, may (until the same would, but for such advance, become presently payable) pay interest at such rate not exceeding (without the sanction of the Company in General- Meeting) 9 percent per annum as may be agreed upon between the member paying the sum in advance and the Board of Directors, but shall not in respect of such advances confer a right to the dividend or to any voting rights.
22. Neither a judgement nor a decree in favour of the Company for calls or other moneys due in respect of any share, nor any part payment or satisfaction thereunder, nor the receipt by the Company of a portion of any money which shall, from time to time, be due from any member in respect of any share, either by way of principal or interest nor any indulgence granted by the Company in respect of the payment of any such money, shall preclude the Company from thereafter proceeding to enforce a forfeiture of such shares as hereinafter provided.
23. On the trial, hearing of any action or suit brought by the Company against any shareholder or his representative, to recover any debt or money claimed to be due to the company in respect of his shares, it shall be sufficient to prove that the name of the defendant is or was when the claim arose on the register of shareholders of the Company as a holder or one of the holders of the number of shares in respect of which such claims is made and the amount claimed is not entered as paid in the Books of the Company and it shall not be necessary to prove the appointment of the Directors who

made any call or that a quorum of Directors was present at the Board at which any call was made or that the meeting at which any call was made was duly convened or constituted nor any other matter whatsoever.

24. If, by the conditions of allotment of any share, the whole or part of the amount or issue price thereof shall be payable by instalments, every such instalment shall, when due, be paid to the Company by the person who for the time being and from time to time shall be the registered holder of the share or his legal representative or representatives, if any.
25. No person to whom a preferential allotment of shares has been made shall be entitled to transfer or dispose or deal with the same in any manner for a period as may be decided by the Board from time to time, subject to the provisions of the Companies Act 1956, or any other Guidelines/Statute.

FORFEITURE OF SHARES

26. If a member fails to pay any call or instalment of a call on the day appointed for the payment thereof, the Board of Directors may at any time thereafter during such time as any part of such a call or instalment remains unpaid serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest, which may have accrued.
27. The notice shall name a further day (not earlier than the expiration of fourteen days from the date of service of the notice), on or before which the payment required by the notice is to be made, and shall state that, in the event of non-payment on or before the day named, the shares in respect of which the call was made will be liable to be forfeited.
28. If the requirements of any such notice as aforementioned are not complied with, any share in respect of which the notice has been given may at any time thereafter before the payment required by the notice has been made, be forfeited by the resolution of the Board of Directors to that effect and such forfeiture shall include all dividends declared in respect of the forfeited shares, and not actually paid before the forfeiture.
29. Where a share has been so forfeited, notice of the resolution shall be given to the member in whose name it stood immediately prior to the forfeiture and an entry of forfeiture with date thereof shall forthwith be made in the register, but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or to make such entry as aforesaid.
30. Any share so forfeited shall be deemed to be the property of the Company.
31. A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the Board of Directors may think fit, and at any time before a sale or disposition, the forfeiture may be cancelled on such terms as the Board of Directors may think fit.
32. The Directors may at any time before any share so forfeited shall have been sold, re-allotted or otherwise disposed of, annul the forfeiture thereof on such conditions as they think fit.

The forfeiture of a share shall involve the extinction, of all interest and in all claims and demands against the Company, in respect of the shares and of all other rights incidental to the share, except only such of those rights as by these Articles are expressly saved.

33. A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares, but shall notwithstanding the forfeiture, remain liable to pay and shall forthwith pay on demand all moneys which at the date of forfeiture were presently payable by him to the Company in respect of the share, but his liability shall cease if and when the Company received payment at call of the nominal amount of shares whether legal proceedings for the recovery of the same had been barred by limitation or not.
34. A duly verified declaration in writing that the declarant is a Director of the Company and that a share in the Company has been duly forfeited on a date stated in the declaration, shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the shares and that declaration and the receipt of the Company for the consideration, if any given for

the shares on the sale or disposition thereof, shall constitute a good title to the shares and the person to whom the share is sold or disposed of shall be registered as the holder of the share and shall not be bound to see to the application of the purchase money (if any) nor shall his title to the share be affected by way of irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share.

35. The provisions of these Regulations as to forfeiture shall apply in the case of non-payment of any sum which by the terms of issue of share become payable at a fixed time, whether on account of the amount of the share or by way of premium or otherwise, as if the same had been payable by virtue of a call duly made and notified.
36. Upon any sale after forfeiture or for enforcing a lien in purported exercise of the powers herein before given, the Directors may appoint some person to execute an instrument of transfer of the shares sold and cause the purchaser's name to be entered in the register in respect of the shares sold and the purchaser shall not be bound to see to the regularity of the proceedings nor to the application of the purchase money and after his name has been entered in the register in respect of such share the validity of the sale shall not be impeached by any person and the remedy of any person aggrieved by the sale shall be in damages only and against the company exclusively.
37. Upon any sale, re-allotment or other disposal under the provisions of the preceding Articles, the certificates, or certificates originally issued in respect of the relative share shall (unless the same shall on demand by the Company have been previously surrendered to it by the defaulting member) stand cancelled and become null and void and of no effect and the Directors shall be entitled to issue a new certificate or certificates in respect of the said shares to the person or persons entitled thereto distinguishing it on them in such manner as they may think fit from the old certificate or certificates.
38.
 - (a) The share certificate shall be issued in market lots and where share certificates are issued in either more or less than market lots, sub-division or consolidation of share certificates into market lots shall be done free of charge;
 - (b) The instrument of transfer shall be in writing and all the provisions of Section 108 of the Act, and of any statutory modifications thereof for the time being shall be duly complied with respect to all transfers of shares and registration thereof.
39.
 - (a) The registration of transfer shall not be refused on the ground that the transferor is either alone or jointly with any other person/persons indebted to the Company on any account whatsoever. The instrument of transfer shall be in writing and all provisions of Section 108 of the Act and statutory modification thereof for the time being shall be duly complied with in respect of all transfer of shares and registration thereof. Every instrument of transfer duly stamped and executed shall be left at the office of the Company for registration, accompanied by the Certificates of the shares to be transferred and such other evidence as the Company may require to prove the title of the transferor or his right to transfer the shares. The Company shall retain all instruments of transfer, which shall be registered, but any instrument of transfer, which the Directors may decline to register, shall, on demand be returned to the person depositing the same.
 - (b) No fee shall be charged for transmission of shares, or for registration of any power of Attorney, Probate, Letters of Administration or other similar documents. No fee shall also be charged for registration of transfers or for issue of new certificates in replacement of those which are old, decrepit, worn out or where the pages on the reverse for recording transfers have been fully utilised.
 - (c) The legal representative of a deceased member shall be entitled to be recognized by the Company as having title to the shares of the deceased member on production of probate or letters of administration or a succession certificate from a competent court of law, provided that the Directors may dispense with the production of such probate letters of administration or succession certificates on the legal representative furnishing such indemnity as the Directors may require.

- (d) Subject to the provisions of Section 111 of the Act and Section 22A of the Securities register transfer Contracts (Regulation) Act, 1956, the Directors may, at their own absolute and uncontrolled discretion and by giving reasons, decline to register or acknowledge any transfer of shares whether fully paid or not and the right of refusal, shall not be affected by the circumstances that the proposed transferee is already a member of the Company but in such cases, the Directors shall within one month from the date on which the instrument of transfer was lodged with the Company, send to the transferee and transferor notice of the refusal to register such transfer provided that registration of transfer shall not be refused on the ground of the transferor being either alone or jointly with any other person or persons indebted to the Company on any account whatsoever except when the company has a lien on the shares. Transfer of shares/ debentures in whatever lot shall not be refused.
- (e) The Directors shall have the same right to refuse a person entitled by transmission to registration of transmission any share or his nominee, as if he was the transferor named in an ordinary transfer for registration.
- (f) The Board shall not issue or register a transfer of any share to a minor (except in case where they are fully paid) or insolvent or person of unsound mind.
- (g) The Board of directors shall have power on giving not less than seven days previous closed notice by advertisement in some news paper circulating in the district in which the registered office of the Company is situated to close the Register of Members and/or Register of Debenture Holder at such time or times and for such period or periods, not exceeding thirty days at a time, and not exceeding in the aggregate forty five days in each year as it may seem expedient to the Board.
- (h) The Company shall comply with the rules, regulations and requirements of the Stock regulations and requirements Exchange or the rules made under the Act, or the rules made under the Securities of stock exchanges, etc. Contracts (Regulation) Act, 1956 or any other law or Rules applicable, relating to the transfer or transmission of shares or debentures.

CONVERSION OF SHARES INTO STOCK

- 39-A. (a) The Directors may, subject to approval of shareholders in general meeting, convert any paid up shares into stock and may with the sanction re-convert any stock into paid up shares of any denomination.
- (b) The holders of the stock may transfer the same or any part thereof, in the same manner and subject to the same regulations, as and subject to which the shares from which the stock arose might previously to conversion have been transferred or as near thereto as circumstances admit; but the Directors may from time to time fix the minimum amount of stock transferable and restrict or forbid the transfer of fractions of that minimum but the minimum shall be exceed the nominal amount of the shares from which the stock arose.
- (c) The holders of stock shall, accordingly to the amount of stock held by them have the same rights, privileges and advantages as regards dividends, voting at meetings of the company and other matters as if they held the shares from which the stock arose but no such privilege or advantages (except participation in the dividends and profits of the company) shall be conferred on any such aliquot part of the stock as would not if existing in shares have conferred that privilege or advantage.
- (d) Such of the Articles of the Company (other than those relating to Share Warrants) as are applicable to paid-up shares apply to stock and the words "Share" and " shareholder" therein shall include "Stock" and " stock holder" respectively.

BUY BACK OF SHARES

- 39-B. Subject to provisions of the Act and other applicable statutory regulation, the company may

purchase its own shares or other specific securities from time to time.

UNDERWRITING AND BROKERAGE

- 39-C. Subject to provisions of Section 76 of the Act, the Company may at any time pay commission to any person in consideration of his subscribing or agreeing to subscribe (whether absolutely or conditionally) for any share or debenture in the Company or procuring or agreeing to procure subscription (whether absolute or conditional) for any share or debenture of the company but so that the commission shall not exceed in the case of shares five percent of its price at which the shares are issued or in the case of debentures two and half percent of its price at which the debentures are issued. Such commission may be satisfied by payment of cash or by allotment of fully or partly paid shares or partly in one way and partly in the other.

ISSUE AND OFFER TO SHARES TO EMPLOYEES, DIRECTORS, ETC.

- 39-D. Subject to the provisions of the Companies Act, 1956, SEBI regulations in this regard and any other provisions in law in this regard, the Board is hereby authorized to issue shares or debentures (whether or not convertible into shares) for offer and allotment to such officers, employees and workers of the company as the Board may select or the trustees of such trust as may be set up for the benefit of the officers, employees and workers in accordance with the terms and conditions of such scheme, plan or proposal as the Board may formulate. Subject to the consent of the stock exchanges and of SEBI, the Board may impose conditions that the shares in or debentures of the company so allotted shall not be transferable for a specified time period.

INTEREST OUT OF CAPITAL

- 39-E. Where any shares are issued for the purpose of raising money to defray the expenses of the construction of any work or building or the provision of any plant which cannot be made profitable for a lengthy period, the capital may pay interest on so much of that share capital as it is for the time being paid up, for the period and subject to the conditions and restrictions provided by Section 208 of the Act, and may charge the same as part of the cost of construction of the work or building or the provision of the plant.

NOMINATION

- 39-F. (a) Notwithstanding anything contained in the Articles of Association, every single shareholder of the Company may at any time, nominate in the prescribed manner, a person to whom his shares in the company shall vest in the event of his death.
- (b) Where the Shares in the Company are held by more than one person Jointly, the Joint holders may together nominate, in the prescribed manner, a person to whom all the rights in the shares of the Company shall vest in the event death of all Joint holders.
- (c) Notwithstanding anything contained in any other law for the time being in force or in any disposition, whether testamentary or otherwise, in respect of such shares in the Company where a nomination made in the prescribed manner purports to confer on any person the right to vest the shares in the Company, the nominee shall, on the death of the shareholder, or on the death of the Joint holders, become entitled to all rights in the shares of the Company, all the Joint holders, in relation to such, as the case may be, shares in the Company, to the exclusion of all other persons, unless the nomination is varied, cancelled in the prescribed manner.
- (d) Where the nominee is a minor, it shall be lawful, for the holder of the shares to make the nomination to appoint in the provided, elect, either.
- (i) To be registered himself as holder of the share or;
 - (ii) To make such transfer of the share as the deceased shareholder could have made;
 - (iii) If the nominee elects to be registered as holder of the share(s), himself, he shall deliver or send to the Company, a notice in writing signed by him stating that he so elects and such notice shall be accompanied with the death certificate of the deceased shareholder;

- (iv) A nominee shall be entitled to the same dividends and other advantages to which he would be entitled to, if he were registered holder of the share(s), except that he shall not, before being registered as a member in respect of his share(s) be entitled to meetings of the Company.

Provided that the Board may, at any time, give notice requiring any such person to elect either to be registered himself or transfer the share, and if the notice is not complied within ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other moneys payable or rights accruing in respect of shares, until the requirements of the notice have complied with.

BONUS SHARES

- 39-G. The Company may by the Resolution passed in the general meeting upon the recommendation of the Board, issue bonus shares to the shareholders of the company by way of capitalization of the profits as per the regulations 96 & 97 of the Table-A of the Act.

SHARE WARRANT

- 39-H. (a) The Company may issue share warrants subject to and in accordance with the provisions of Sections 114 and 115 and accordingly the Board may in its discretion, with respect to any share is fully paid upon application in writing signed by the persons registered as holder of the share, and authenticated by such evidence (if any) as the Board may, from time to time, require as to the identity of the person signing the application and on receiving the certificate (if any) of the share, and the amount of the stamp duty on the warrant and such fee as the Board may, from time to time, require, issue a share warrant.
- (b) The bearer of a share warrant may, at any time, deposit, the warrant at the office of the Company, and so long as the warrant remains so deposited, the depositor shall have the same right of signing a requisition for calling a meeting of the Company, and of attending and voting and exercising the other privileges of the member at any meeting held after the expiry of two clear days from the time of deposit, as if his name were inserted in the Register of Members as the holder of the share included in the deposited warrant.
- (c) Not more than one person shall be recognized as depositor of the share warrant. The Company shall, on two days written notice, return the deposited share warrant to the depositor.
- (d) Subject as herein otherwise expressly provided, no person shall, as bearer of a share the holders of Share warrant, sign a requisition for calling a meeting of the Company, or attend or vote or exercise any other privileges of a member at a meeting of the Company, or be entitled to receive any notice from the Company. The bearer of a share warrant shall be entitled in all other respect to the same privileges and advantages as if he were named in the Register of Members as the holder of the shares included in the warrant, and he shall be a member of the Company.
- (e) The Board may, from time to time, make bye-laws as to the terms on which (if it or coupon shall think fit) a new share warrant or coupon may be issued by way of renewal in case of defacement, loss or destruction.

DEMATERIALISATION OF SECURITIES

- 39-I. (a) Notwithstanding anything contained in the Articles, the Company shall be entitled to dematerialize its securities, rematerialize its securities held by the depositories and/or to offer its fresh securities in the dematerialized form pursuant to the Depositories Act, 1996 and the rules framed there under, if any.
- (b) Every person shall have the option to hold the securities with a depository. Such a person who is a beneficial owner of the securities can at any time opt out of a depository in respect of such security in the manner provided by the Depositories Act, and the Company shall, in the manner and within the time prescribed, issue to the beneficial owner the required certificate of securities. If a person opts to hold his security with a

depository, the Company shall intimate such depository the details of allotment of the security, and on receipt of the information, the depository shall enter in its record the name of the allottee as the beneficial owner of the security.

- (c) All securities held by a Depository shall be dematerialized and shall be in fungible to be in fungible form. Nothing contained in Sections 153, 153A, 153B, 187A, 187B, 187C and 372A of the Act shall apply to a depository in respect of securities held by it on behalf of the beneficial owners. No certificate shall be issued for the securities held by the depository.
- (d) The Depository shall be deemed to be the registered owner for the purpose of and beneficial owner effecting transfer of ownership of securities on behalf of a beneficial owner. Save as otherwise provided here in above, the Depository as a registered owner shall not have any voting rights or any other rights in respect of securities held by it. Every person holding securities and whose name is entered as the beneficial owner in the records of the Depository shall be deemed to be a member of the Company. The beneficial owner shall be entitled to all the rights and benefits and shall be subject to all the liabilities in respect of such of his securities that are held by the Depository.
- (e) Notwithstanding anything contained in the Act or the Articles, where the Depository the Depository holds the securities, the Company shall intimate the details thereof to the depository immediately on allotment of such securities.
- (f) The register and index of beneficial owners maintained by the Depository under the beneficial owners Depositories Act shall be deemed to be the Register and Index of Members and security holders for the purpose of these Articles except as is mentioned in the provisions of Section 150, 151 and 152 of the Act.
- (g) Nothing contained in Section 108 of the Act or these Articles shall apply to a transfer of securities effected by a transferor and transferee both of whom are entered as beneficial owners in the records of a depository.

DIRECTORS

- 40. Unless otherwise determined by a General Meeting, the number of Directors shall not be less than three and not more than 12. The maximum number of twelve Directors shall include a minimum of four independent directors.
- 41. A director shall not be required to hold any qualification shares.
- 42. The Directors of the Company as on the date of adoption of these Articles of Association are the following:
 - i) Mr. C. BALJEE
 - ii) Mr. C. K. BALJEE
 - iii) Mr. D. R. SIKKA
- 43. (Deleted)

NOMINEE DIRECTOR

- 43-A. Notwithstanding anything to the contrary contained in these Articles, so long as any moneys remain owing by the Company to the Tourism Finance Corporation of India Limited (TFCI), The Industrial Finance Corporation of India Limited (IFCI), Industrial Development Bank of India Limited (IDBI), The Industrial Credit and Investment Corporation of India Limited (ICICI), Life insurance Corporation of India (LIC), Unit Trust of India (UTI), Industrial Reconstruction Bank of India (IRBI), General Insurance Corporation of India (GIC), New India Assurance Company

Limited (NIA), Oriental Insurance Company Limited (OIC), United India Insurance Company Limited (UI) and National Insurance Company Limited (NIC) or to any other Finance Corporation or Credit Corporation or to any other Financing Company/Body out of any loans granted by them to the company or so long as TFCI, IDBI, IFCI, ICICI, LIC, UTI, IRBI, GIC, NIA, OIC, UI and NIC or any other Finance Corporation or credit corporation or any other financing company or body (each of which TFCI, IFCI, IDBI, ICIGI, LIC, UTI, IRBI, GIC, NIA, OIC, UI and NIC or any other Finance Corporation or Credit Corporation or any other Financing Company or body is hereinafter in this Article referred to as "the Corporation") continue to hold debentures in the company by direct subscription or private placement, or so long as the corporation holds shares in the company as a result of underwriting or direct subscription or so long as any liability of the Company arising out of any guarantee furnished by the corporation on behalf of the Company remains outstanding, the corporation shall have a right to appoint from time to time, any person or persons as a Director or Directors, wholetime, or non-wholetime, (which Director or Directors is/are hereinafter referred to as "Nominee Director") on the board of the company and to remove from such office any person or persons so appointed and to appoint any person or persons in his or their place/s.

The Board of Directors of the Company shall have no power to remove from office the Nominee Director/s. At the option of the Corporation such Nominee Director/s shall not be required to hold any shares qualification to the Company. Also at the option of the Corporation such Nominee Director/s shall not be liable to retirement by rotation of Directors. Subject to aforesaid the Nominee Director/s shall be entitled to the same rights and privileges and be subject to the same obligations as any other Director of the Company.

The Nominee Director/s so appointed shall hold the said office only so long as any moneys remain owing by the company to the corporation or so long as the Corporation holds Debentures in the company as a result of direct subscription or private placement or so long as the corporation holds shares in the company as a result of underwriting or direct subscription or the liability of the company arising out of the guarantee is outstanding and the Nominee Director/s so appointed in exercise of the said power shall ipso facto vacate such office immediately the moneys owing by the company to the Corporation are paid off or on the Corporation ceasing to hold Debentures/shares in the Company or on the satisfaction of the liability of the company arising out of the guarantee furnished by the corporation.

The Nominee Director/s appointed under this Article shall be entitled to receive all notices of and attend all General Meetings Board Meetings and of the meetings of the committee of which the Nominee Director/s is/are member/s as also the minutes of such meetings. The corporation shall also be entitled to receive all such notices and minutes.

The Company shall pay to the Nominee Director/s sitting fee and expenses to which the other directors of the company are entitled, but if any other fees, commission, monies or remuneration in any form is payable to the Directors of the Company, the fees, commission, monies and remuneration in relation to such Nominee Directors shall accrue to the corporation and the same shall accordingly be paid by the Company directly to the Corporation. Any expenses that may be incurred by the Corporation or such Nominee Director/s in connection with their appointment or Directorship shall also be paid or re-imbursed by the company to the Corporation or, as the case may be, to such Nominee Director/s.

Provided that if any such Nominee Director/s is an officer of the Corporation, the sitting fees in relation to such Nominee Directors shall also accrue to the Corporation and the same shall accordingly be paid by the Company directly to the Corporation.

In the event of the Nominee Director/s being appointed as whole-time Director/s, such Nominee Director/s shall exercise such powers and have such rights as are usually exercised or available to a whole-time Director in the management of the affairs of the company. Such whole-time Director/s shall be entitled to receive such remuneration, fees, commission and monies as may be approved by the Corporation.

- 43-B. The Company may have a director elected by minority shareholders in such manner shareholders as may be prescribed in this behalf by the government or any other statutory authority from time to time.
44. The Board, of Directors of the Company may appoint an alternate Director to act for a Director (hereinafter called the original Director) during his absence for a period of not less than three months from the state in which meetings of Board are originally held and such appointment shall have effect and such appointee whilst he holds office as an alternate Director shall be entitled to notice of meetings of the Directors and to attend and vote thereat accordingly. An alternate Director appointed under this Article shall not hold office as such for a period longer than that permissible to the original Director in whose place he has been appointed and shall vacate office if and when the original Director returns to the state in which the meetings of the Board are ordinarily held. If the term of office of the original Director is determined before he so returns to the state in which the meeting of Board are ordinarily held any provisions in the Act or in these Articles for the automatic re-appointment of retiring Director in default of another appointment shall apply to the original Director and not to the alternate Director.
45. Subject to and in accordance with the provisions of Section 260 and 262 of the Act, the Directors shall have power at any time to appoint any person as a Director either as an addition to the Board or to fill a casual vacancy but so that the total number of Directors shall not exceed the maximum fixed by the Articles.
46. Subject to the provisions of Sections 198, 310, 311 of the Act, the remuneration and travelling expenses payable to the Directors of the Company may be as hereinafter provided:
- (a) The Directors of the company for the time being shall subject to provision of he Companies Act, 1956 and the Rules framed there under be paid a sitting fee of such sum as may be determined by the Board from time to time for every meeting of the Board or of any Committee of the Board attended by them in addition to all travelling and handling expenses incurred by them in attending ad returning from such meetings of the Board or any committee of the Board.
 - (b) In addition to the remuneration payable as above, the Director who is not a bonafide resident of the place where a meeting is held and who shall come to such place for the purpose of attending the meeting shall be reimbursed such sum as the Board may consider fair compensation for travelling, hotel and other incidental expenses incurred by him in attending and returning from the meetings of the Board of Directors or any Committee thereof or General Meetings of the Company.
 - (c) A Director who is neither in the whole time employment of the Company nor a Managing Director, if called upon to render extra services whether of a professional or non-professional nature may be paid remuneration either by way of monthly, quarterly or annual payment with the approval of the Central Government or by way of Commission, such amounts or such percentage of the net profits of the Company as the case may be, as may be determined by the Board subject to the provisions of the Act, and such remuneration may be in addition to the remuneration payable under sub-clause (a) above.
 - (d) In addition to 'the remuneration payable under sub-clause (c) above, any Director referred to therein shall be reimbursed such sum, as the Board may consider fair compensation for travelling, hotel and other incidental expenses incurred by him in connection with the business of the Company.
47. The continuing Directors may act notwithstanding any vacancy in the Board, but if and so long as their number is reduced below the quorum fixed by the Act for a meeting of the Board, the continuing Director or Directors may act for the purpose of increasing the number of Directors to that fixed for the quorum or of summoning a General Meeting of the Company but for no other purpose.
48. (1) The office of a Director shall become vacant only in accordance with Section 283 of the Act.

- (2) Subject to the provisions of the Act, a Director may resign his office at any time by notice in writing addressed to the Company or the Board of Directors, such resignation to be operative immediately on receipt of notice thereof.
49. (1) Subject to the provisions of the Act, the Directors including the Managing Director, if any shall not be disqualified by reason of their office as such from contracting with the Company either as vendor, purchaser, lender, agent, broker or otherwise nor shall any contract or arrangement entered into by or on behalf of the Company with any Director or the Managing Director or with any Company or partnership of or in which any Director or the Managing Director shall be a member or otherwise interested be avoided nor shall any Director or the Managing Director so contracting or being such member or so interested be liable to account to the Company for any profit realised by such contract or arrangement by reason only of such Director or the Managing Director holding that office or of the fiduciary relation thereby established, but the nature of interest must be disclosed by him or them at the meeting of the Board at which the contract or arrangement is determined on, if the interest then exists or in any other case at the meeting of the Board after the acquisition of the interest.

Provided nevertheless that no Director shall take part in the discussion of or vote as a Director in respect of any contract or arrangement in which he is so interested as aforesaid and if he does so, his vote shall not be counted but he shall be entitled to be present at the meeting during the transaction of the business in relation to which he is precluded from voting although he shall not be counted for the purpose of ascertaining whether there is quorum of Directors present. The provision shall not apply to any contract by or on behalf of the Company to give to the Directors or the Managing Directors or any of them any security by way of indemnity against any loss which they or any of them suffer by becoming or being sureties for the Company or any contract or arrangement entered into or to be entered into with a public company, or a public company, in which the interest of the Director aforesaid consists solely in his being a Director of such company and the holder of not more than 1 share of such number or value therein as is required to qualify him as a Director thereof, he having been nominated as such Director by the Company or in his being a member holding not more than 2% of its paid up share capital.

- (2) Every Director who is in any way whether directly or indirectly, concerned or interested interest in contract or arrangement, entered into or to be entered into by or on behalf of the Company (not being a contract or arrangement entered into or to be entered into between the Company and any other company where any of the Directors of the Company or two or more of them together holds or hold not more than two percent of the paid up share capital in the other company) shall disclose the nature of his concern or interest at a meeting of the Board as required by Section 299 of the Act. A general notice, renewable in the last month of each financial year of the Company, that a Director is a director or a member of any specified body Corporate or is a member of any specified firm and is to be regarded as concerned or interested in any subsequent contract or arrangement with that body corporate or firm shall be sufficient disclosure of concern or interest in relation to any contract or arrangement so made and, after such general notice, it shall not be necessary to give special notice relating to any particular contract or arrangement with such body corporate or firm provided such general notice is given at a meeting of the Board or the Director concerned takes reasonable steps to secure that it is brought up and read at the first meeting of the Board after it is given. A general notice that any Director is a Director or a member of any specified company or is a member of any specified firm and is to be regarded as interested in any subsequent transaction with such company or firm shall, as regards any such transaction, be sufficient disclosure under this Article and after such general notice it shall not be necessary to give any special notice relating to any particular transaction with such company or firm.
- (3) A Director may be or become a Director or member of any Company promoted by this Company or in which this Company may be interested as vendor, shareholder or otherwise and no such Director shall be accountable to the Company for any benefits

received as Director or member of such Company. .

ROTATION OF DIRECTORS

50. Subject to the provisions of Section 255 and 256 of the Act two-thirds of the total number of Directors of the Company shall be liable to retirement by rotation.
51. (1) The Directors to retire by rotation at every Annual General Meeting shall be those who have been longest in office since their last appointment, but as between persons who become Directors on the same day, those who are to retire shall in default of and subject to any Agreement amongst themselves be determined by lot
- (2) A retiring Director shall be deemed eligible for re-election, unless verified in otherwise with.
- (3) At the Annual General Meeting at which a Director retires as aforesaid, the Company may fill up vacancy by appointing the retiring Director or some other person thereto.
- (4) (a) If the place of the retiring Director is not so filled up and the meeting has not expressly resolved not to fill the vacancy the meeting shall stand adjourned till the same day in the next week, at the same time and place or if the day is a public holiday, till the next succeeding day which is not a public holiday, at the same time and place.
- (b) If at the adjourned meeting also, the place of the retiring Director is not filled up and that meeting also has not expressly resolved not to fill the vacancy, the retiring Director shall be deemed to have been re-appointed at the adjourned meeting unless:
- (i) At that meeting or at the previous meeting a resolution for the re-appointment of such Director has been put to the meeting and lost;
- (ii) The retiring Director has, by a notice in writing addressed to the company or its Board of Directors, express his unwillingness to be so re-appointed;
- (iii) He is not qualified or is disqualified for appointment;
- (iv) A resolution, whether special or ordinary, is required for his appointment or re-appointment in virtue of any provisions of the Act; or
- (v) The proviso to Sub-Section (2) of Section 263 of the Act is applicable to the case.
- (5) The Company may, subject to the provisions of Section 284 of the Act, by ordinary resolution, of which Special Notice has been given, remove any Director before the 288 Special Notice expiration of his period of office and may, by ordinary resolution of which Special Notice has been given appoint another person in his stead, if the Director so removed was appointed by the Company in general meeting or by the Board under Article 45. The person so appointed shall hold office until the date up to which his predecessor would have held office if he had not been so removed. If the vacancy created by the removal of a Director under the provision of this Article is not so filled by the meeting at which he is removed, the Board may at any time thereafter, fill such vacancy under the provisions of Article 45.

MEETINGS

- 51-A. (a) Directors shall convene Board Meetings for the dispatch of business, adjourn and otherwise regulate their meeting and proceedings, as they deem fit and proper.
- (b) The quorum for a meeting of the Board of Directors shall be one-third of its total strength (any fraction contained in that one-third being rounded off as one) or two Directors, whichever is higher.
- (c) Subject to the provisions of Section 289 of the Act, a resolution by circulation signed by the Directors shall be as valid and effectual as if it had been passed at meeting of Directors duly called and constituted.
- (d) Any questions arising at a meeting shall be decided by a majority of votes and, in case of any equality of votes, the Chairman shall have a second or casting vote.
- (e) The Board may, subject to the provisions of the Act, from time to time and at any and to delegate time delegate any of its powers to a committee consisting of such Director or Directors as it thinks fit, and may from time to revoke such delegation, Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.
- (f) The meetings and proceedings of any such committee consisting of two or more members shall be governed by the provisions herein contained for regulating the meetings and proceedings of the Board so far as the same are applicable thereto and to are not superseded by any regulations made by the Board under the last preceding Article.

BORROWING

52. (1) The Board of Directors may from time to time but with such consent of the Company in General Meeting as may be required under Section 293 raise any money or any moneys or sums of money for the purpose of the Company provided that the moneys to be borrowed by the Company apart from temporary loans obtained from the Company's bankers in the ordinary course of business shall not without the sanction of the Company at a General Meeting exceed the aggregate of the paid up capital of the Company and its free reserves, that is to say reserves not set apart for any specific purpose, but subject to the provisions of Section 292 of the Act the Board may from time to time at their discretion raise or borrow or secure the payment of any such sum or sums of money for the purpose of the Company, by the issue of debentures perpetual or otherwise debentures convertible into shares of this or any other company or perpetual annuities and in security of any such money so borrowed, raised or received, mortgage, pledge or charge, the whole or any part of the property, assets or revenue of the Company present or future, including its uncalled capital by special assignment or otherwise or to transfer or convey the same absolutely or in trust and to give the lenders powers of sale and other powers as may be expedient and to purchase, redeem or payoff any such securities, provided that every resolution passed by the Company in General Meeting in relation to the exercise of the power to borrow as stated above shall specify the total amount up to which moneys may be borrowed by the Board of Directors.
- (2) The Directors may by a resolution at a meeting of the Board delegate the above power to borrow money otherwise than on debentures to a Committee of Directors or the Managing Director if any within the limits prescribed.
- (3) Subject to the provisions of the above sub-clauses, the Directors may, from time to time, at their discretion, raise or borrow or secure the repayment of any sum or sums of money for the purpose if the Company, at such time and in such manner and upon such terms and conditions in all respects as they think fit, and in particular, by promissory notes or by opening current accounts, or by receiving deposits and advances with or without security, or by the issue of bonds perpetual or redeemable debentures or debenture stock of the Company (both present and future) including its uncalled capital for the time being, or by mortgaging or charging, or pledging any lands, buildings, goods or other property and securities of the Company, or by such other means as to them may seem expedient.

53. Such debentures, debenture stock, bonds or other securities may be made, assignable free from any equities between the Company and the person to whom the same may be issued.
54. (a) Any such debentures, debenture stock, bonds or other securities may be issued at a discount, premium or otherwise, and with any special privileges as to redemption, surrender, drawings, allotment of shares of the Company, and the right to appoint Directors or otherwise, Debentures, debenture-stocks, bonds or other securities with a right of conversion may be issued subject to the sanction of the company in General Meeting and other provisions of the Act.
- (b) Any trust deed for the securing of any debenture-stock and or any mortgage deed and or other bond for securing payment of moneys borrowed by or due by the Company and or any contract or any agreement made by the Company with any person, firm, body corporate, Government or authority who may render or agree to render any financial assistance to the Company by way of loans advanced or by guaranteeing of any loan borrowed or other obligations of the Company or by subscription to the share capital of the Company or provide assistance in any other manner, may provide for the appointment, from time to time, by any such mortgage, lender, trustees or holders of debentures or contracting party as aforesaid, of one or more persons to be a Director or Directors of the Company. Such trust deed, mortgage deed, bond or contract may provide, that the person appointing a Director as aforesaid may from time to time remove any Director so appointed by him and appoint any other person in his place and provide for filling up of any casual vacancy created by such person, vacating office as such Director, such power shall determine and terminate on the discharge or repayment of the respective mortgage, loan or debt or debentures or on the termination of such contract and any person so appointed as Director under mortgage or bond or debenture trust deed or under such contract shall cease to hold office as such Director on the discharge of the same. Such appointment and provision in such document as aforesaid shall be valid and effective as if contained in these presents.
55. Where any uncalled capital of the Company is charged, all persons taking any subsequent charge thereon shall take the same, subject to such prior charge and shall not be entitled, by notice to the shareholders or otherwise to obtain priority over such prior charge.
56. If the Directors or any of them or any other person, shall become personally liable for the payment of any sum primarily due from the Company, the Board may execute or cause to be executed any mortgage, charge or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the Directors or other persons so becoming liable as aforesaid from any loss in respect of such liability.

MANAGING DIRECTORS/WHOLE TIME DIRECTORS

57. (a) The Board may from time to time with such sanction of the Central Government as may be required by law, appoint one or more of their body to the office of the Managing Director/whole time Director.
- (b) The Directors may from time to time resolve that there shall be either one or more Managing Directors or whole time Directors.
- (c) In the event of any vacancy arising in the office of Managing Director or whole time Directors the Directors may resolve to increase the number of Managing Directors or whole time Directors, the vacancy shall be filled by the Board of Directors and the Managing Director or whole time Director so appointed shall hold the office for such period.
- (d) The Managing Director or whole time Director shall ipso facto cease to hold such office if for any reason, he ceases to hold the office of Director.
- (e) The Managing Director or whole time Director shall, subject to the decision of the Board

to the contrary, ipso facto ceases to be Director, unless for any reason he ceases to hold the office of the Managing Director or whole time Director.

58. Managing Director/Whole Time Director shall subject to the supervision control and direction of the Board and subject to the provisions of the Act, exercise such powers as are exercisable under these presents by the Board of Directors as they may think fit and confer such powers for such time and to be exercised for such objects, purposes and upon such terms and conditions and with such restrictions as they may think expedient and they may confer such powers either collaterally with or to the exclusion of and any such substitution for all or any of the powers of the Board of Directors in that behalf and may from time to time revoke, withdraw, alter or vary all or any of such powers. The Managing Director/whole time Directors may exercise all the powers entrusted to them by the Board of Directors in accordance with the Board's Direction.
59. Subject to the provisions of the Act and subject to such sanction of the Central Government as may be required for the purpose, the Managing Director/Whole time Director shall receive such remuneration (whether by way of salary, commission or participation in profits, or partly in one way and partly in another) as the Company in General Meeting may from time to time determine.
60. The Managing Director/Whole Time Director shall be entitled to charge and be paid for all actual expenses, if any which they may incur for or in connection with the business of the Company.

DIVIDENDS

61. (a) The Company in General Meeting may declare dividends to be paid to the Members General Meeting according to their respective right and interest in the profits. No dividend shall exceed the amount recommended by the Directors, but the Company may declare a smaller dividend in a General Meeting. The provisions regarding the manner and time of payment of dividend embodied in Sections 205, 206, 207 and 93 of the Act shall apply accordingly.
- (b) The Directors may from time to time pay the Members such interim dividends as appear to them to be justified.
- (c) No dividend shall be paid otherwise than out of the profits of the Company arrived at in the manner provided for in Section 205 of the Act. The declaration of the Directors as to the net profits of the Company shall be conclusive.
- (d) Subject to the rights of persons if any entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid or credited as paid on the shares in respect whereof the dividend is paid, but if and so long as nothing is paid upon any of shares in the Company, dividends may be declared and paid according to the amounts paid on the shares. No amount paid or credited as paid on a share in advance of calls shall be treated for the purpose of this regulation as paid on the share.
- (e) The Directors may retain any dividends on which the Company has a lien and may apply the same in or towards the satisfaction of the debts, liabilities or engagements in respect of which the lien exists.
- (f) That the unclaimed dividends will not be forfeited and in case of such unclaimed dividends the procedure as prescribed under the provisions of Section 205A of the Companies Act, will be followed.
- (g) All dividends shall be appointed and paid proportionately to the amounts paid or amount paid up, credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid but if any share is issued on terms, providing that it shall rank for dividends as from a particular date such share shall rank for dividend accordingly. No member to receive dividend whilst indebted to the Company and the Company's right of reimbursement thereof. No member shall be entitled to receive payment of any interest or dividend or bonus in respect of his share or shares, whilst any money may be due or owing from him to the Company in respect of such share or shares

(or otherwise however either alone or jointly with any other person or persons) and the Board of Directors may deduct from the interest or dividend to any member all such sums of money so due from him to the Company.

- (h) A transfer of shares shall not pass the right to any dividend declared therein before the registration of the transfer.
- (i) Any one of several persons who are registered as joint holders of any share may give effectual receipts for all dividends or bonus and payments on account of dividends in respect of such share. A person entitled to a share by transmission shall subject to the right of the Directors to retain such dividends or money as is hereafter provided be entitled to receive dividend without being registered as member and may give a discharge for any dividends or other moneys payable in respect of the share.
- (j) The dividend payable in cash may be paid by transfer to bank account or by cheque or warrant sent through post direct to registered address of the share-holder entitled to the payment of the dividend or in case of joint holders to the registered address of that one of the joint holders which is first named on the register of members or to such person and to such address as they may direct in writing. The Company shall not be liable or responsible for any Cheque or Warrant or pay slip or receipt lost in transmission or for any dividend lost, to the member or person entitled thereto by forged endorsement of any cheque or warrant or forged signature on any pay slip or receipt or the fraudulent recovery of the dividend by any other means.
- (k) The Company shall pay the dividend or send the warrant in respect thereof to the thirty days shareholders entitled to the payment of dividend, within thirty days from the date of the declaration unless:
 - (i) Where the dividend could not be paid by reason of the operation of any law;
 - (ii) Where a shareholder has given directions regarding the payment of the dividend and those directions cannot be complied with;
 - (iii) Where there is a dispute regarding the right to receive the dividend;
 - (iv) Where the dividend has been lawfully adjusted by the Company against any sum due to it from shareholder, or
 - (v) Where for any other reason, the failure to pay the dividend or to post the warrant within the period aforesaid was not due to any default on the part of the Company.
- (l) No unclaimed dividend shall be forfeited by the Board and the Directors shall comply with provisions of Sections 205A and 205B of the Act, as regards unclaimed dividends.
- (m) No interest on dividends Subject to the provisions of Section 205 A of the Act no dividend shall bear interest as against the Company.
- (n) No dividend shall be payable except in cash, provided that nothing in this Article shall be deemed to prohibit the capitalization of the profits or reserves of the Company for the purpose of issuing fully paid up bonus shares or paying up any amount for the time being unpaid on any shares held by members of the Company.

COMMON SEAL

- 62. (1) The Board shall provide a common seal for the Company and they shall have power from time to time to destroy the same and substitute a new seal in lieu thereof, and the common seal shall be kept at the registered office of the Company and committed to the custody of the Managing Director or the Secretary if there is one.
- (2) The seal shall not be affixed to any instrument except by authority of a resolution of the Board or Committee and unless the Board otherwise determines every deed or other instrument to which the seal is required to be affixed shall, unless the same is executed by a duly constituted attorney for the Company be signed by one Director at least in whose presence the seal shall have been affixed and countersigned by the Managing Director,

Secretary or such other person as may from time to time be authorised by the Managing Director or by the Board provided nevertheless that any instrument bearing the seal of the Company and issued for valuable consideration shall be binding on the Company notwithstanding any irregularity touching the authority to issue the same.

SERVICE OF DOCUMENTS AND NOTICE

63. A document may be served on the Company or an officer thereof by sending it to the Company or officer at the Registered Office of the Company by post under a certificate of posting or by registered post, or by leaving it at its registered office.
64. Each registered holder of shares shall from time to time notify in writing to the Company some place in India to be registered at his address and such registered place or address shall for all purposes be deemed his place of residence.
65. If a member has no registered address in India, and has not supplied to the Company an address within India, for the giving of notices to him, a document advertised in a newspaper circulating in the neighbourhood of the Registered Office of the Company shall be deemed to have been duly served on him on the day on which the advertisement appears.
66. A document may be served by the Company on the persons' entitled to a share in consequence of the death or insolvency of a member by sending it through the post in a prepaid letter addressed to them by name or by the title of representatives of the deceased, or assignees of the insolvent or by any like description at the address (if any) in India supplied for the purpose by the persons claiming to be so entitled, or (until such an address has been so supplied) by serving the document in any manner in which the same might have been served if the death or insolvency had not occurred.
67. Any notice to be given by the Company shall be signed by the Managing Director or by such Director or officer as the Directors may appoint. The signature to any notice to be given by the Company may be written, printed or lithographed.

AUTHENTICATION OF DOCUMENTS

68. Save as otherwise expressly provided in the Act or these Articles, a document or proceeding requiring authentication by the Company may be signed by a Director, the Managing Director, the Manager, the Secretary or an authorised officer of the Company and need not be under its seal.

INDEMNITY AND RESPONSIBILITY

69. (a) Subject to the provisions of Section 201 of the Act, the Managing Director, Manager, Secretary and other officer or employee of the Company shall be indemnified by the Company against, and it shall be the duty of Directors out of the funds of the Company to pay, all costs and losses and expenses (including travelling expenses) which any such Director, officer or employee may incur or become liable to by reason of any contract entered into or act or deed done by him as such Managing Director, Director, Officer or Employee or in any way in the discharge of his duties.
 - (b) Subject as aforesaid the Managing Director and every Director, Manager, Secretary or other officer or Employee of the Company shall be indemnified against any liability incurred by them or him in defending any proceeding whether civil or criminal in which judgement is given in their or his favour or in which he is acquitted or discharged or in connection with any application under Section 633 of the Act in which relief is given to him by the Court.
70. (1) Subject to the provisions of Section 2(L1) of the Act, no Director or Officer of the Company shall be liable for the acts, receipts, neglects or defaults of any other Director or Officer, or for joining in any receipt or other act for the conformity or for any loss or

expense happening to the Company through insufficiency or deficiency of title to any property acquired by order of the Directors for or on behalf of the Company, or for the insufficiency or deficiency of any security in or upon which any of the moneys of the Company shall be invested, or for any loss or damage arising from the bankruptcy, insolvency, or tortuous act of any person, company or corporation, with whom any moneys, securities or effects shall be entrusted or deposited or for any loss occasioned by any error of judgement or oversight on his part, or for any other loss or damage or misfortune whatever which shall happen in the execution of the duties of his office or in relation thereto, unless the same happens through his own wilful act or default.

- (2) Without prejudice to the generality of foregoing it is hereby expressly declared that any filing fee payable or any document required to be filed with the Registrar of Companies in respect of any act done or required to be done by any Director or other officer by reason of his holding the said office, shall be paid and borne by the Company.

SECRECY CLAUSE

71. No member shall be entitled to inspect the Company's works without the permission of the Directors or Managing Director, or to require discovery of or any information respecting any discovery of or any information respecting any detail of the Company's trading or any matter which is or may be in the nature of a trade secret, mystery or trade or secret process which may relate to the conduct of the business of the Company and which in the opinion of the Directors it will be inexpedient in the interest of the members of the Company to communicate to the public.
72. Every Director, Managing Director, Manager, Secretary, Auditor, Trustee, Members of a Committee, Officer servant, Agent, Accountant or other person employed in the business of the Company, shall if so required by the Directors before entering upon his duties, or at any time during his term of office, sign a declaration pledging himself to observe strict secrecy respecting all transactions of the Company and the state of Accounts and in matters relating thereto, and shall by such declaration pledge himself not to reveal any of the matters which may come to his knowledge in the discharge of his duties except when required so to do by the Directors or any meeting or by a court of law or by the person to whom such matters relate and except so far as may be necessary in order to comply with any of the provisions of these Articles or law.

MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The following contracts (not being contracts entered into in the ordinary course of business carried on by the Company or entered into more than two years before the date of this Draft Red Herring Prospectus) which are or may be deemed material have been entered or to be entered into by the Company. These contracts, copies of which have been attached to the copy of this Draft Red Herring Prospectus, delivered to the RoC for registration and also the documents for inspection referred to hereunder, may be inspected at the Registered Office of the Company between 10.00 am to 4.00 pm on working days from the date of this Draft Red Herring Prospectus until the Bid Closing Date/Issue Closing Date.

Material Contracts to the Company

1. Registered Lease Deed dated August 7, 1992 executed by Karnataka State Tourism Development Corporation in favour of the Company.
2. Registered Deed of Amendment to Lease dated August 4, 1997 between Karnataka State Tourism Development Corporation and the Company.
3. Registered Lease Deed dated June 1, 2004 executed by Karnataka State Tourism Development Corporation in favour of Mr. Chander K. Baljee and the Company in respect of property adjoining Hotel Royal Orchid.
4. Agreement of Lease dated September 15, 2005 executed by Hotel Stay Longer Private Limited and Baljees Hotels and Real Estates Private Limited as a Confirming Party in favour of the Company.
5. Hotel Operation Agreement dated April 4, 2003 between Icon Hospitality Private Limited and the Company in respect of operation and management of Royal Orchid Central.
6. Registered Lease Deeds dated January 30, 2003 and June 25, 2004, executed by Sacred Hospitality Private Limited in favour of Icon Hospitality Private Limited in respect of Royal Orchid Central.
7. Management Agreement dated May 26, 2004 executed between Jungle Lodges and Resorts Limited, a Government of Karnataka Undertaking, and the Company in respect of Royal Orchid Metropole.
8. Registered Agreement to Lease dated December 6, 2004 executed by Mr. Ranbir Singh Bagga, Ms. Inderpreet Kaur Bagga, Ms. Devender Kaur Bagga, Mr. Satpal Singh Bagga and Sarbjeet Kaur Bagga in favour of the Company in respect of the property situated at No.1. Banjara Hills, Hyderabad.
9. Deed of Assignment dated September 15, 2005 executed between the Company, Royal Orchid Hyderabad Private Limited and Mr. Harmendar Singh Bagga.
10. Memorandum of Understanding dated July 2, 2005 between Just Homes Associates and the Company pertaining to the lease of a portion of the immovable property at the proposed block "A" Marisoft Annexe to be constructed on Sy. No. 15 and others Vadgaonsheri, Kalyani Nagar, Pune – 411 014.
11. Agreement dated July 23, 2005 between Maruti Comforts and Inn Private Limited, Mrs. Beena Jaggi, Mr. Ravi S. Doddi – HUF, Mr. Ravi S. Doddi, Senet Cables Private Limited and the Company for acquiring 51% of the equity share capital of Maruti Comforts and Inn Private Limited.
12. Shareholders Partnership Agreement dated April 4, 2003 executed between Icon Hospitality Private Limited, the Company and Mr. P. Dayananda Pai
13. Shareholders Partnership Agreement dated September 15, 2005 executed between the Company, Royal Orchid Hyderabad Private Limited and Mr. Neeraj Agarwal.
14. Share Subscription Agreement dated October 4, 2005 executed between the Company, the Promoters and WestBridge Ventures II Investment Holdings.
15. Share Purchase Agreement dated October 4, 2005 executed between the Company, Mr. Chander K.

Baljee and WestBridge Ventures II Investment Holdings.

Material Contracts to the Issue

16. Letters of appointment dated June 22, 2005 from the Company appointing ICICI Securities Limited and SBI Capital Markets Limited as BRLMs.
17. Memorandum of Understanding amongst the Company and the BRLMs dated October 27, 2005
18. Memorandum of Understanding executed by the Company and the Registrar to the Issue dated September 15, 2005
19. Escrow Agreement dated [●] among the Company, the BRLMs, Escrow Collection Bank(s) and the Registrar to the Issue.
20. Syndicate Agreement dated [●] among the Company, the BRLMs and the Syndicate Member.
21. Underwriting Agreement dated [●] among the Company, the BRLMs and the Syndicate Member.

Material Documents / Documents for Inspection

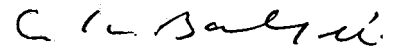
1. Certified true copies of the Memorandum and Articles of Association of the Company as amended from time to time.
2. Shareholders' resolution dated September 28, 2005 in relation to this Issue and other related matters.
3. Resolutions of the Board of Directors dated August 27, 2005 in relation to this Issue and other related matters.
4. Reports of the statutory Auditors dated October 22, 2005 prepared as per Indian GAAP and mentioned in this Draft Red Herring Prospectus.
5. Auditors Report dated October 22, 2005 with respect to the proposed acquisition by the Company of 51% of equity share capital of Maruti Comforts & Inn Private Limited
6. Copies of annual report of the Company for FY 2001 to FY 2005.
7. Copies of annual report of our subsidiary Icon Hospitality Private Limited for FY 2004 and FY 2005.
8. Consents of the Auditors dated November 3, 2005 for inclusion of their report on accounts in the form and context in which they appear in this Draft Red Herring Prospectus.
9. Letter dated October 28, 2005, issued by the Company's project consultant i.e. Mahajan & Aibara (Management Consultancy Division) in respect of the details of project cost
10. Consents of BRLMs, Syndicate Member, Registrar to the Issue, Escrow Collection Bank(s) / Banker(s) to the Issue, Bankers to the Company, Legal Counsel to the Issue, Directors, Company Secretary and Compliance Officer, as referred to, in their respective capacities.
11. Initial listing applications dated [●] and [●] filed with NSE and BSE.
12. In-principle listing approvals dated [●] and [●] 2005 from NSE and BSE, respectively.
13. Tripartite agreement between NSDL, the Company and the Registrar to the Issue dated [●].
14. Tripartite agreement between CDSL, the Company and the Registrar to the Issue dated [●].
15. Due diligence certificate dated November 3, 2005 to SEBI from BRLMs.
16. SEBI observation letter no [●] dated [●] and our reply to the same dated [●].

Any of the contracts or documents mentioned in this Draft Red Herring Prospectus may be amended or modified at any time if so required in the interest of the Company or if required by the other parties, without reference to the shareholders subject to compliance of the applicable laws.

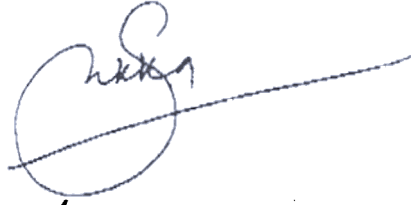
DECLARATION

We, the Directors of the Company, hereby declare that all relevant provisions of the Companies Act, 1956 and the guidelines issued by the Government or the guidelines issued by the Securities and Exchange Board of India established under Section 3 of the Securities and Exchange Board of India Act, 1992, as the case may be, have been complied with and no statement made in this Draft Red Herring Prospectus is contrary to the provisions of the Companies Act, 1956 or the Securities and Exchange Board of India Act, 1992 or rules made thereunder or guidelines issued, as the case may be. We further certify that all statements in this Draft Red Herring Prospectus are true and correct.

Mr. Chander K. Baljee (Chairman and Managing Director)



Mr. Sunil Sikka



Mr. Naresh K. Malhotra



Mr. Jaithirth Rao



Mr. R. V. S. Rao



Mr. K.V. Rao (Vice President Finance)



Date: **NOVEMBER 3**, 2005

Place: Bangalore